

PAUL HIRSCH ON THE MASSACRE OF MIDDLE MANAGE

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BUSINESS MONTHLY

SAVED!

HOW TOM STEPHENS YANKED MANVILLE FROM THE BRINK

By Stephen W. Quickel

SPECIAL REPORT CAPITALIZING ON GLASNOST

- What Gorbachev Really
Wants From Business
- A CEO's Guide Through
The Kremlin Maze
- How Four Companies
Rake In Rubles

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BUSINESS MONTH

NOVEMBER 1988

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FROM THE EDITOR IN CHIEF



In long-term terms, an article that appeared in the September issue of **BUSINESS MONTH** has clearly caught the anguished attention of executives who have joined, are joining or are thinking about joining forces with Japanese corporations in the United States.

The article, "A Matter of Control," by Leah Nathans, Senior Writer, reported the extraordinary difficulties American managers working for Japanese subsidiaries have in actually running their operations. The fact is that many of them do not run the U.S. side; Japanese do. It is the puppet syndrome. Most Japanese companies, as described in the article, have a kind of shadow government operating in Tokyo that makes the key decisions on product, salaries, marketing—the stuff, quite clearly, of management. Lawsuits abound, instituted by American managers fed up with what they charge are broken contracts, broken promises, broken pledges and shattered careers.

So that was the Nathans story. Strong, carefully reported, fair. Then, whammo!

The phone calls started coming to reporters, editors and others in the **BUSINESS MONTH** camp—not from outraged executives but from executives who wanted to say, in various ways and tones, "Write on." Each in his or her way described yet another lawsuit against a Japanese firm, another serious undermining of authority by overseas owners. This from a manager at Panasonic, whose name we have agreed to withhold: "It [the story] was tearfully and painfully accurate. It spoke for thousands of executives who are in the same situation. I could identify with every little nuance. I've really trashed my career, I've lost my self-respect and dignity. . . . Americans are being used as fronts, as industrial spies, as information processors."

Another caller was Cyrus J. Keefer, a former manager with Mitsui & Company Finance Inc. who has filed suit against the firm, which fired him, he says, after he had successfully built an in-house finance company. The article, he said, "sounds like the same thing that happened to me."

As Japanese companies continue their invasion of North America, there obviously are and will continue to be cultural and professional flash points. They don't do things as Americans do, we all know that. Adjustments have to be made, on both sides, but perhaps a greater willingness to give must be exhibited on the American side. After all, in most of the examples offered, the Japanese own the store. They get to make the rules.

Yet the matter of give must also find its way into the language of the Japanese corporate world. So must trust and confidence. Despite such exceptions as the excellent Murata Business Systems and its Dallas-based American CEO, R. Michael Franz—who seems to have a miraculously autonomous relationship with the parent company in Kyoto—serious division and misunderstanding are more the rule.

Globalization is upon us. The speed of its arrival and implementation has in some ways dug up the road. On both sides there must now be a readiness to take the time to fill in the potholes, to smell the asphalt. We will be following with interest.

JOHN VAN DOORN

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NORA FELLER

Glitches and Snitches: A Wall Street Update

THE DOMINOES ARE STILL FALLING on Wall Street. Michael Milken and his firm, Drexel Burnham Lambert, are only the latest biggies to be charged by the Securities and Exchange Commission with irregular trading practices. Just as Dennis Levine fingered his pal Ivan Boesky, so Boesky rolled over and gave Milken to the SEC. Whether the Junk Bond King's next forwarding address will be a minimum security prison depends on the success of any criminal prosecution, so far not forthcoming. But if the SEC's civil suit is successful, expect it to get very expensive for everyone involved.

It should be noted that although this fight has been billed as Milken versus Boesky, Ivan and the SEC may have more help in their corner than was first realized. Three men who pleaded guilty to insider-trading-related offenses back in early 1987 still have not been sentenced 18 months later. And papers filed with the United States District Court in Manhattan indicate that



Michael Milken versus ...

they are cooperating with the prosecutors. Martin A. Siegel, an investment banker at Drexel Burnham Lambert, pleaded guilty to tax evasion and passing inside information; Michael Davidoff, head trader for Ivan Boesky, to stock parking; and Boyd L. Jefferies, head of a brokerage bearing his name, to market manipulation and stock parking. One of the stocks Jefferies allegedly parked for Boesky was Phillips Petroleum, a transaction



... Ivan Boesky?

that is listed in the SEC complaint against Milken and Drexel. Three others are rumored to have been given immunity for their testimony in this case. David Jachimczyk was a record keeper who worked under Davidoff; Charles Thurnher was an accountant for Milken; and Setrag Mooradian was an accountant for Boesky. Thurnher and Mooradian worked out the mechanics of a \$5.3 million "consulting fee" that was allegedly an illegal payment from Boesky to Drexel. Jachimczyk is thought to have kept a secret record of the transaction.

To help you sort out the contenders and get you through the next round, we offer an updated scorecard for the Wall Street scandals.

—FRED F. JESPERSEN

Name	Occupation	Alleged Illegal Profits (in millions)	Payback To SEC (in millions)	Fines	Prison Time
MAIN PLAYERS					
Dennis Levine	Investment Banker, Drexel Burnham Lambert	\$12.6	\$11.6	\$326,000	2 years
Ivan Boesky	Arbitrator	\$50	\$50	\$50 mil.	3 years
Stephen Wang (& Fred Lee)*	Analyst, Morgan Stanley	\$19	?	?	?
Israel Grossman (& family)*	Lawyer	\$1.5	0	\$25,000	2 years
R. Foster Winans (& friends)*	Columnist, The Wall Street Journal	\$9	0	\$5,000	18 months
Paul Thayer (& friends)*	Deputy Secretary of Defense	\$1.9	\$1	\$5,000	4 years
IN THE WINGS					
Michael Milken	Head of Junk Bond Dept., Drexel Burnham Lambert	?	?	?	?
Martin A. Siegel	Investment Banker, Drexel Burnham Lambert	\$9	\$9	?	?
Michael Davidoff	Head Trader for Ivan Boesky	?	?	?	?
Boyd L. Jefferies	Chairman, Jefferies Group	?	?	?	?
Charles Thurnher	Accountant for Michael Milken	?	?	?	Immunity
Setrag Mooradian	Accountant for Ivan Boesky	?	?	?	Immunity
David Jachimczyk	Record Keeper for Ivan Boesky	?	?	?	Immunity

*In these cases, the first party supplied the information, the second party made the profits.

grand larceny; tried; acquitted in May 1987; resumed position as president of Schiavone Construction Company in Secaucus, New Jersey. **MARGARET M. HECKLER**, 57, Secretary of Health and Human Services (1983-

1985); Ambassador to Ireland. **ELIZABETH H. DOLE**, 52, Secretary of Transportation (1983-1987); full-time campaigner for Republican candidates; popular speaker (Fee: \$18,000 plus first-class expenses for two).

WILLIAM BENNETT, 45, Secretary of Education (1985-1988); founder, with Professor Allan Bloom, of the Madison Center, a think tank concerned with education issues; lecturer (Fee: \$15,000).

—K.F.G.

Of Pork Barrels And Lame Ducks

WITH RONALD REAGAN's presidency entering its final days, what better time to look back and see exactly who has fared best after eight years of Reaganomics. Based on two recent studies, the news is good if you are a Northeastern corporate executive and bad if you are a poor Southern day laborer.

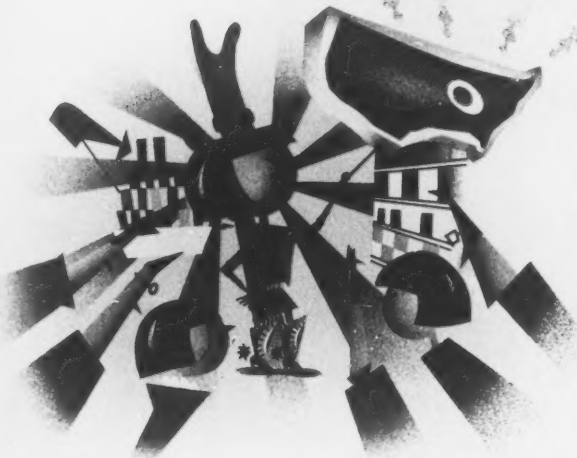
The first study, by the U.S. Bureau of Economic Analysis, finds that Reagan's high-tech defense buildup paid off in spades for several areas of the nation. Of the 10 states that scored the greatest rise in per capita income, eight were in the Northeast or the Middle Atlantic seaboard and another was California—areas that are chockablock with defense contractors. "The defense buildup was the force that drove the expansion," says Rudolph E. DePass, a regional economist for the bureau. "States that had these businesses grew more rapidly than those that didn't."

Southeastern and Mountain West states, for example, whose low-tech industries (such as textiles) were increasingly ceded to overseas manufacturers, fell farther behind the pack. And oil-dependent states took a beating from OPEC as the Reagan administration pursued its free-trade policies. Per capita income in these areas sank to less than 80 percent of the national average.

The second study, by the management consulting firm of Towers, Perrin, Forster and Crosby, takes regional differences out of the equation and concentrates on how various classes of people fared. In 1987, the median total cash compensation for the CEOs of America's largest industrial companies passed \$1 million for the first time, rising by 13 percent to \$1,087,500. This represents nearly five times

BOESKY: MARIO RUZ/PICTURE GROUP; MILKEN: TERRY ASHE/SYGMA

PERSPECTIVE



the 2.5 percent increase the average American worker received during the same year.

Furthermore, the survey's authors point out that their figures probably understate the compensation gap between U.S. executives and workers, since the equation they used didn't take into account the drop in tax rates from 70 percent to 28 percent for those at the top of the ladder while tax rates at the bottom stayed roughly the same. As a result, purchasing power rose dramatically for upper-income Americans and was pushed down by inflation for lower-income workers. —L.B.C.

In Japan, Beef Isn't All Kobe

THE U.S. TRADE DEFICIT with Japan was stampeding past \$30 billion at the end of July when a Houston beef company wedged open a small but significant crack in Japanese import barriers. Granada Foods Corporation made an end run around Japan's notoriously slow-moving trade officials and initiated sales contacts directly with beef buyers and restaurateurs. As a result, its premium Texas beefsteaks are now prominently featured by name in more than 300

Japanese grocery-store meat departments and on more than 100 restaurant menus. Granada's Japanese sales in the second half of 1988 are expected to jump to four times the million-dollar level the company wrapped up in the first six months. How did Granada do it? Good old American salesmanship and just a touch of good timing.

Japan manages to keep imports out of the country through a variety of ruses. Among the most efficient are the infamous trading companies, which serve as the middlemen between American suppliers and Japanese consumers. It's here that Granada made its innovative move. "We decided to take a chance and do things a little differently," says John Bellinger, vice president of sales. "We went directly to the buyers."

The sales force wined and dined potential clients, set up special seminars and hired Japanese women to dress up in cowboy duds and pass out sizzling steak samples in Tokyo supermarkets. By the end of this year, the company will even eliminate some retailers from the sales loop when Japan's number-two television station begins carrying the company's meat-by-mail commercials. The ads are designed

to spur beef-eating Japanese to order their steaks directly via Oriental express.

Granada did benefit from two lucky coincidences. Instead of being put off by the typical Western sales banter, Japan's shy, self-effacing retailers turned out to be flattered by the full-scale American assault. Also, Japan began liberalizing its protectionist trade laws at precisely the right moment, effectively doubling the country's imported beef quotas just as the sales teams moved in to seal their deals. By the time Japan's import restrictions on beef are phased out completely in 1991, Granada expects yearly sales to top \$35 million. Clearly a bright spot in Houston's dismal economic climate.

—L.B.C.

(PSSST—Here Are The Big Debtors)

SINCE LEVERAGED buyouts and mergers and acquisitions have changed the

way the business world looks at debt, we thought it might be interesting to find out which companies owe the most—long-term—and how big their debts are. In absolute numbers, they are very big. General Motors, for example, has \$17.2 billion in long-term debt, which easily tops Peru's \$15.3 billion, and GTE edges out Ecuador, \$9.6 billion to \$9.1 billion. Overall, corporations issued a net of \$280 billion in debt from 1984 to 1987, which is more than the total debts of Mexico and Brazil combined at the end of 1987. The debt-to-the-market-value-of-equity ratio for non-financial companies is less startling, however, having risen from 32 percent in 1980 to only 38 percent in 1988, according to Salomon Brothers. So what does it all mean? Not a lot until the economy takes a nosedive and rising interest costs squeeze the bottom line. Then the big borrowers may have to pay the piper for living on more borrowed money than ever. —L.N.

I OWE, I OWE, SO OFF TO WORK I GO

COMPANY	LONG-TERM DEBT	SHAREHOLDER EQUITY
	First Quarter 1988 (in billions)	First Quarter 1988 (in billions)
General Motors	\$17.2	\$33.4
Mitsui	\$11.0†	\$ 2.3†
Sears, Roebuck & Company	\$ 9.8	\$13.7
GTE	\$ 9.6	\$ 9.4
British Petroleum	\$ 8.4	\$21.0
USX	\$ 7.7	\$ 4.7
Eastman Kodak	\$ 7.5	\$ 6.1
American Telephone & Telegraph	\$ 7.3*	\$10.6*
BellSouth	\$ 7.0*	\$12.9*
Mobil	\$ 6.9	\$16.8†
Occidental Petroleum	\$ 6.3	\$ 5.2
NYNEX	\$ 6.3*	\$ 9.1*
Tenneco	\$ 6.2	\$ 3.7
Chevron	\$ 6.1	\$14.3
British Telecommunicat.	\$ 6.0†	\$12.5†
Royal Dutch/Shell Group	\$ 5.9	\$45.8
Atlantic Richfield	\$ 5.7	\$ 6.1
BCE	\$ 5.6	\$ 4.6
Santa Fe Southern Pacific	\$ 5.6	\$.9
Pacific Telecals Group	\$ 5.5*	\$ 8.0*

*As of fourth quarter 1987 †As of second quarter 1988

TO RUSSIA, WITH CASH

*Gorbachev's reforms are creating
plenty of investment opportunities.
Profits are another matter.*

BY MARSHALL I. GOLDMAN

If, five years ago, Americans had fantasized about the kind of leader they would like to see take over the Soviet Union, few would have imagined one who would call for a secret election, the release of political prisoners, the withdrawal of troops from Afghanistan and the destruction of nuclear warheads on short- and medium-range missiles. Likewise, few could have foreseen a leader who would criticize central planning and collectivization or authorize the formation of joint ventures with foreign partners. In short, no one would have predicted the rise of Mikhail S. Gorbachev.

In calling for the restructuring of the economy and attempting to change the way the Soviets conduct foreign trade, Gorbachev has opened up opportunities for Western corporations. By abolishing the monolithic Ministry of Foreign Trade and allowing the creation of joint ventures, he has eased their way into the Soviet Union. But there are stumbling blocks. Under the new laws, foreign partners will remain minority partners. Profits made in the Soviet Union will largely stay in the Soviet Union. The inconvertibility of the ruble presents its own set of problems, and it is unlikely that the Soviets will move to make the currency convertible at any time in the near future. In such a situation, investments made now are investments made for the long term.

Marshall I. Goldman, associate director of the Russian Research Center at Harvard University and a professor of economics at Wellesley College, is the author of Gorbachev's Challenge: Economic Reform in the Age of High Technology.

And there is another sobering fact: Despite the glamour of *glasnost*, U.S.-Soviet trade remains limited. In 1986, Soviet imports were the lowest they have been since 1978. In 1987, American exports to the USSR amounted to only about 0.6 percent of total exports, and, depending on the Soviet harvests, grain exports traditionally have accounted for one-third to two-thirds of total trade.

Still, Soviet demand for imported technology and consumer goods, combined with the shortage of foreign exchange, creates an opportunity for U.S. capitalists who can find ways to maneuver within the constraints of the Soviet system.

At first, there was little reason to expect that Gorbachev would behave much differently than his predecessors had. There were hints that he would be a more disciplined leader, but it was expected that he would hold to the old ways of doing things. Indeed, there was nothing unusual in his behavior during at least the first year and a half of his administration.

But economic conditions were much more serious than he had been led to believe. The pace of industrial growth had fallen sharply from the double-digit rates of the 1930s and 1950s. Some Soviet economists even began to insist that the gross national product had actually declined in recent years. This was reflected by the drop in the production of steel and machine tools in the early 1980s.

Equally distressing, the Soviet Union had not been sharing in the high-technology revolution. If anything, its high-tech products seemed to have fallen farther behind those being produced not only in the United States and Japan, but in Taiwan and South Korea. After a time, Gorbachev

himself began to complain that under Leonid Brezhnev, the Soviet Union's economy had fallen into a "pre-crisis condition." Indeed, the Brezhnev years are now officially referred to as "the era of stagnation."

The cause of that stagnation, as Gorbachev now explains it, was the Soviet economy itself. While central planning, the collectivization of agriculture and close control of foreign trade by the Ministry of Foreign Trade may have served the Soviet Union well in an earlier age, today these institutions have become a brake on mod-





ernization and growth. The tight control and decision making, along with the target setting imposed by Gosplan, the industrial ministries and the Ministry of Finance served to quash the incentives and the initiative of the Soviet work force.

Agriculture was afflicted by the same malaise. Even when harvests increased, distribution was so convoluted that much of what was produced never made its way to the consumer. As a result of poor storage and shipping and, on occasion, willful destruction, more than 20 percent of the

yearly harvests rotted in the fields.

After due consideration, Gorbachev and his advisers came to realize that if the Soviet economy were to catch up to what was happening in the capitalist world, or, for that matter, if it merely sought to prevent the gap from widening, it would have to undo almost every policy that the Soviets had taken such pride in before.

The success or failure of Gorbachev's economic reforms will be determined by the way Soviet bureaucrats, managers, laborers and farm workers respond to the

Pepsi generation: workers at a bottling plant in the Soviet Union. To avoid problems in converting currency, PepsiCo swaps syrup for Soviet vodka.

opportunities he has opened up in the domestic economy. So far, the results have not been encouraging. Some of the more outspoken Soviet reformers are complaining that after three and a half years of power, Gorbachev has little to show for his efforts. Food—particularly meat—is as scarce as ever. In addition, sugar is now rationed in many cities. There is a lot of

new, frank talk but little action. If Gorbachev cannot produce results—and soon—he may not be in charge for long. If he is removed, many of his proposals are likely to be retired as well.

But it is the changes that Gorbachev has made in foreign trade—and the implications they have for foreign business—that most interest corporate America. In August 1986 it was announced that foreigners would again be allowed to participate in joint ventures inside the Soviet Union. There had been none since Stalin prohibited them in the late 1930s. The new rules do not open the door all the way, however. Foreign partners may hold no more than 49 percent of the stock in any joint venture. By restricting foreigners to minority ownership, the Soviets have continued to reflect their ideological bias about allowing capitalists to become too influential. However, the fact that they are again allowing in foreign corporations is a recognition that the previous way of transferring technology was a failure.

The system that was once praised because it insulated the Soviet economy from the often artificial fluctuations of capitalist markets is now being criticized. While it brought the Soviet Union an occasional windfall—in that officials could play potential sellers off against each other by claiming that one supplier's bid was higher than a competitor's—it also served to make the USSR the world's most protected economy. As a result, Soviet industry has been spared the need to face up to competition in the world marketplace and has lagged far behind capitalist countries in industrial technology and in the quality of its products.

The Soviets have also come to understand that the secrecy they gained by separating foreign export suppliers from consumers was more than offset by the Soviet users' inability to obtain the type of after-installation service available to most consumers outside the Soviet Union. This has contributed to a much higher "down time" in the Soviet Union.

Further, while they often managed to buy at very low prices, Soviet negotiators more often than not got what they paid for, not what was most appropriate for the user. Since all purchases were made by the Ministry of Foreign Trade and negotiators were judged by whether or not they could buy at low prices, they generally chose products because they were cheaper—not

necessarily because they were sophisticated. And, because every import and export had to be funneled through the ministry bottleneck, negotiations tended to take two or three times as long as negotiations for similar goods in capitalist countries.

One of Gorbachev's first steps in dismantling this clumsy apparatus was to end the ministry's monopoly, and, as a consequence, allow individual ministries and industrial enterprises to import and export directly. In early 1988, the government made the decision to abolish the Ministry of Foreign Trade altogether. However, that decision was so abrupt that there was no time to prepare managers for their new responsibilities, and the result was confusion. One of Gorbachev's advisers, Abel Aganbegian, regarded the whole episode as a disastrous mistake.

There are other barriers preventing an upsurge in foreign economic activity. One problem is the inconvertibility of the ruble.

NOT KNOWING THE RUBLE'S WORTH, THE SOVIETS ARE NOT SURE WHICH EXPORTS ARE PROFITABLE.

Because they do not know how many dollars a ruble should be worth, Soviet planners have difficulty determining what is or isn't profitable to export and import. Nor are they helped by the fact that they must use 3,000 different rates of exchange to make their calculations.

Even more important is the perennial shortage of convertible currencies. Other than petroleum and gas, there is little the Soviets have that hard-currency importers want. If the ruble is to become convertible, the Soviets will have to find other products to export, and that means not only improving the quality of what they produce but facilitating the way they market it. Unlike Americans, who seem relatively unconcerned about a massive balance-of-trade deficit and an equally large foreign-trade debt, the Soviets tend to be cautious and conservative and, in the past, they have curbed their imports when their export earnings have fallen.

During the Brezhnev years, part of the justification for spending hard currency on

imported technology—often in the form of turnkey factories, in which foreign suppliers were forbidden to hold an equity share—was the expectation that once the technology was available, it would be easy to copy and upgrade. More often than not, though, technicians weren't able to operate new facilities at full capacity. Once produced, imported technology was rarely upgraded; it was a challenge merely to sustain initial performance levels.

The Soviets expected, for example, that the Fiat-built plant at Togliatti would also serve as a training center for other Soviet factory managers, and that after a few years local engineers would be able to upgrade the factory. But when the time came to make a model change, there had been almost no diffusion or development of management and engineering skills. The Soviets, as before, had to turn to the West for help. They went to Porsche to design the new model and back to Fiat to provide the up-to-date machinery.

By deciding to involve foreign companies in joint ventures, the Soviets assume that their partners will help them upgrade their operations. Much the same reasoning lies behind the decision to seek membership in the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank.

Despite the difficulties, there are ways to maneuver within the system. Occidental Petroleum, for example, sells superphosphoric acid and buys Soviet ammonia. Other companies have constructed barter or swap arrangements. PepsiCo trades its syrup for their Stolichnaya vodka. The trick for the foreign partner is to find something that is readily available in the outside world and trade it for something the Soviets haven't already thought of importing. Given the relatively low quality of their industrial output, that isn't easy but it's not impossible.

Another approach is to enter a joint venture for the production of equipment that will help the Soviets exploit their raw materials. Combustion Engineering and Honeywell, for example, are both making process-control equipment that has increased the output of Soviet petroleum and fertilizer products. As a reward, Combustion Engineering will receive approximately 20 percent of the increase in output, which the company can then export.

In an elaborate version of this barter arrangement, a group of some of the larger American companies—including Chevron, Ford and RJR Nabisco—have formed a consortium. Although officials at Chevron say their petroleum exports will not be shared with the other members, the underlying rationale for the creation of such a consortium is that the group's exports will help finance imports by allowing

WHO'S DOING DEALS

Despite a breakthrough trade agreement in 1972, commercial relations between the United States and the Soviet Union have hardly been steadfast. Now the trend is up, though it's no boom. For instance, since January 1987 only about a dozen joint-venture agreements have been signed. Here are the most notable deals in the post-cold war era:

COMPANY	YEAR	DESCRIPTION	REVENUES TO U.S. COMPANY (EST.)
PEPSICO	1972	A breakthrough deal: The Soviets produce and sell Pepsi-Cola, and in exchange PepsiCo gets Stolichnaya vodka. Pepsi becomes the first foreign consumer product to reach Soviet markets.	\$750 million to date
OCCIDENTAL PETROLEUM	1973	Twenty-year contract to supply phosphates and ammonia to Soviet fertilizer factories. A deal unrivaled in size that was seen as heralding a new era in U.S.-USSR trade.	\$20 billion by 1993
ALLIS-CHALMERS	1973	First of two agreements to build an iron-ore pelletizing plant in the Soviet Union.	\$90-\$100 million for both
INTERNATIONAL HARVESTER	1974	Sale of tractors for construction of the Trans-Siberian pipeline.	\$100 million
GOULD	1975	Sale of equipment and technology to build a factory to produce heavy-duty engine bearings.	\$47 million
MARINE RESOURCES INTERNATIONAL	1976	A highly unusual pre- <i>glasnost</i> joint venture: Seafood caught by Americans and processed by Russians is sold inside the Soviet Union, with the profits split 50-50.	\$400 million through 1987
DRESSER INDUSTRIES	1978	Contract to build a drilling-bit plant to serve the oil industry.	More than \$100 million
CATERPILLAR	1985	Sale of tractors and pipelayers.	\$100 million
ROMA FOOD ENTERPRISES	1987	Joint venture to open 25 Italian restaurants in the Soviet Union by 1993.	\$49 million a year
COMBUSTION ENGINEERING	1988	A consortium led by CE will build two of the world's largest petrochemical complexes—approximately 40 plants—in Siberia by 1995. Agreement must still be signed.	\$20 billion for partners
OCCIDENTAL PETROLEUM	1988	In a joint-venture deal still to be signed, Occidental is to lead a consortium that will build and operate a petrochemical complex near the Caspian Sea.	\$6 billion for venture partners (for construction)
OCCIDENTAL PETROLEUM	1988	Joint venture to build and operate two plants to produce plastics.	\$160-\$200 million for partners (for construction)
HONEYWELL	1988	Joint venture to design and market process-control systems.	\$4.5 million for 1988
IDG COMMUNICATIONS	1988	Joint venture to produce <i>PC World USSR</i> magazine in Soviet Union.	\$500,000 a year
MCDONALD'S CORPORATION	1988	Joint venture to open 20 restaurants in Moscow starting next year.	\$60 million a year

members to exchange currency among themselves.

Several of the joint-venture restaurants that have been set up in Moscow operate on the same principle. Thus the Delhi, an Indian-Soviet joint venture, has two dining rooms: One sells for rubles, the other sells for hard currency—primarily to tourists.

Obviously, there are limits to this kind of operation, particularly if joint ventures such as McDonald's of Canada open up several outlets. After a while, the number of joint-venture restaurants may exceed the number of tourists. Representatives of the McDonald's venture say, however, that they are looking to the long run and are prepared to accumulate rubles in exchange for market share in the hope that sooner or later the currency will become convertible.

Clearly, convertibility of the ruble would simplify the foreign-trade process

and make possible a substantial increase in trade volume. Even without it, however, opportunities are available to resourceful (and, since raw materials constitute close to 80 percent of Soviet exports to the hard-currency world, that word is not chosen lightly) businessmen.

These opportunities reflect the hunger of both consumers and industry in the Soviet Union for access to foreign goods. But in the new enthusiasm over the prospects of trade with the Soviets, the United States should remember that some conservatives in the Soviet Union worry that too much contact with the outside world will be damaging. The KGB, for example, periodically singles out Western businessmen for what it considers to be needless prying into Soviet economic life. The most recent incident occurred in the spring of this year, when an American trader, L. Matthews, was found to be carrying a list of goods

that the Ministry of Communications planned to import. Nothing happened to Matthews, but his Soviet contacts were each sentenced to three years in prison. Such opponents of trade bide their time in the expectation that Gorbachev, and with him *perestroika* and *glasnost*, will pass.

It would be reasonable to expect that under Gorbachev foreign economic activity would have increased to record levels. The fact that after a year and a half fewer than 60 joint ventures have been authorized by the Soviet Ministry of Finance suggests, however, that despite the considerable talk and expectation, results are still modest. A story making the rounds of Moscow illustrates this dichotomy. A visitor from Leningrad asks to see an eye doctor as well as an ear specialist. "Why do you need both?" his friend asks. "Because," he answers, "my ears hear what my eyes don't see."

Surveys conducted by both Runzheimer International, the well-known management consultant/fleet specialist, and the National Association of Fleet Administrators (NAFA), find that acquisition cost is the number one vehicle selection criterion among fleet managers. Fortunately, acquisition and other fleet costs are controllable.

For example, companies can lease rather than purchase. Or they might decide to get out of the fleet business entirely and have employees provide their own cars, at a stipulated reimbursement rate.

As to engines, fuel-efficient, low cost fours are still the choice of fleet managers, though sixes are making inroads. With the inevitable rise of fuel prices a shift to larger engines isn't advisable. According to David Lefever, NAFA's Executive Director, "Our research indicates that fleet managers with 4-cylinder engines are going to stick with them, despite current low fuel prices."

Although today's fleet cars are somewhat diminished in dimensions and engine displacement, they now sport sure-start electronic fuel injection, corrosion-resistant aluminum/plastic radiators and, invariably, air conditioning. There's hardly a stripped car out there and for good reason: well-equipped cars consistently pay off when it's resale time.

As cars change, companies vary the types of vehicles they select. According to Runzheimer's Director of Consulting Services, Adlore Chaudier, "Businesses are changing their fleet composition to make up for the downsized cars so prevalent on market. For example, between 1985 and 1987, nearly three-fourths of survey respondents added minivans."

Vehicle selection is a refined process today, with fleet managers studying need, use and disposal methods, as well as computerized analyses of life-cycle costs. "The analysis of need and cost controls has led many companies to—surprising-

ly—restrict the assignment of management and executive level company cars," notes Chaudier. Runzheimer's data showed 19% of corporations with more than 500 cars reducing the size of its executive contingent. Many companies still permit some personal use of vehicles, but a significant number are cutting back.

For most companies, the largest fleet budget bite is for depreciation and interest; the bite amounted to 40.7% of fleet dollars in 1972 and chewed up 52.6% in 1987, according to Runzheimer.

Finally, at turn-in time, companies (or their lessors) can dispose of fleet vehicles to employees, at auctions, or through wholesalers and brokers; wherever the best deal is to be had. "Companies are usually anxious to sell cars to employees," says NAFA's Lefever. "It eliminates paying commissions and transporting the vehicles somewhere else to be sold. Also, if employees know they can buy the cars at a good price, they tend to take better care of them." Actually most vehicles are sold at the auction block.

One of the biggest contributors to fleet cost control has been the ubiquitous computer. Fleet managers routinely use computerized vehicle analyses to make cost-informed decisions that not only ensure the drivers get cars that do the job, but receive those cars that are evaluated as 'best buys' in a given category. Smaller companies that lack analytical resources can still turn to sophisticated leasing firms or fleet consultants like Runzheimer for current car cost and operating data. One thing is certain, today's fleet managers are buying sharper and disposing smarter. As well they might, under top management's tightly focused magnifying glass! —J.C.

'89 Fleet Highlights: Aerostyled Cars Set Pace

The teardrop shaped, wind tunnel winners, Ford Taurus and Mercury Sable, set the pace for 1988 mid-sized car fleet



1989 Buick Century Custom Sedan

sales. With subtle refinements and improved quality, they're expected to repeat in '89, though serious challenges are ahead when GM's 1990 "W" body models, such as the Chevrolet Lumina, are introduced in late 1989.

There are several new fleet offerings in the following listing, including Chrysler's step-up-from-compact pair, the Dodge Spirit and Plymouth Acclaim. Meanwhile, some effective metal bending gives a new look and extra 'legs' to fleet standbys, such as the Chevrolet Celebrity and Buick Century. Four-cylinder engines remain the fleet administrators' preference, but sixes are making steady moves up.

"Buy American" is still the watchword for large commercial fleets. But patriotic fervor aside, quality, fit and finish of domestic cars—without exception—has improved dramatically over the past several years and Detroit is literally on a roll.

The '89 fleet choices allow any company to draw a balance between job requirement, driver satisfaction, image desired and budget.

BUICK

With the squared roof Century mid-size slumping slightly in '88, Buick expects to come bouncing back with a restyled model for '89. According to J.E. Pirtle, Director Fleet Sales, "The new Century had an excellent response from fleet administrators at the NAFA convention and we expect to recapture a lot of

SELECTED 1989 PROJECTED OWNERSHIP AND OPERATING COSTS

Make and Model ¹	Head Room	Leg Room	Luggage Capacity (Cubic Feet)	Curb Weight (Pounds)	Overall Length	Drive Unit	Cyl.	Displace (Liter)	Annual Costs ²		
									Operating	Fixed	Total
Cadillac Deville	39.3"	42.4"	16.1	3,437	196.5"	FWD	8	4.5	\$1,780	\$7,101	\$8,881
Chevrolet Caprice CL	38.5	42.2	20.9	3,654	212.2	RWD	8	5.0	1,860	4,594	6,454
Olds Cutlass Ciera	38.6	42.1	15.8	2,733	190.3	FWD	6	3.8	1,590	4,626	6,216
Chevrolet Celebrity	38.6	42.1	16.2	2,765	188.3	FWD	6	2.8	1,550	4,545	6,095
Ford Taurus L	38.3	41.7	17.0	2,887	188.4	FWD	6	3.0	1,520	4,436	5,956
Ford Tempo GL	37.5	41.5	12.9	2,585	177.0	FWD	4	2.3	1,420	4,080	5,500
Chevrolet Cavalier	38.6	42.2	13.6	2,365	174.3	FWD	4	2.0	1,300	4,120	5,420
Dodge Caravan	37.6	34.9	125.0	3,068	175.9	FWD	4	2.2	1,530	3,771	5,301
Plymouth Reliant	38.6	42.2	15.0	2,408	178.6	FWD	4	2.2	1,300	3,917	5,217
Ford Escort GL	37.9	41.5	16.4	2,222	166.9	FWD	4	1.9	1,320	2,730	5,050

¹All four-door vehicles similarly equipped including automatic transmission, power steering, power disc brakes, air conditioning, tinted glass, AM-FM stereo, body side molding, cruise control, and left-hand remote control mirror.

²Costs include operating expenses (fuel, oil, maintenance and tires), fixed expenses (insurance, depreciation, financing, taxes and licensing) and are based on a 36-month/60,000 miles retention cycle.

Source: Runzheimer International, Rochester, Wisconsin

lost business with this car." LeSabre, will continue to make inroads in the full size ranks, "right up there with Chrysler Park Avenue and Cadillac," according to Pirtle, while the luxury level Riviera regains its old flair with a facelift and a nearly foot-long stretch. Subcompact Skyhawk and compact Skylark round out the fleet offerings. Skylark, in fact, backs up a step and has been simplified for fleet use; viz. digital dash removed, bench front seat and



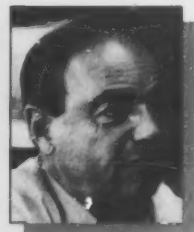
Buick's Pirtle:
Our restyled
Century will win
back a lot of fleet
business.

column mounted shift installed. The mid-sized Regal, introduced last year, has been primarily successful in the daily rental market.

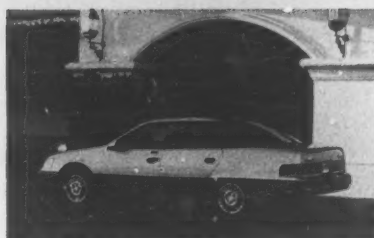
Approximately 16% of Buick's production went to fleets in '88—about 90,000 units—and should hold at the same level for '89. Says Pirtle, "What you drive defines your image. Our higher initial cost is covered by the higher residual value of a Buick and you have a happier employee." Buick's '89 fleet program will guarantee the Century's value versus the best in class vehicle for a 3-year period. "We say we have quality, dependability and value and now we're putting our money where our mouth is," Pirtle notes. "At the end of three years, we guarantee to commercial accounts that the value of our Century will be equal to or better than the best in class, which is the Ford Taurus."

LINCOLN/MERCURY

The sleek mid-sized Sable is Lincoln-Mercury's fleet mainstay, with unit sales more than doubling from 1986's 21,000 to 48,000 for 1988. Fleet sales, including major commercial accounts, daily rentals and dealer leasing programs, accounted for nearly a third of the division's 660,000 units; an L/M record. The top sellers to commercial fleets are the Sable and compact Topaz. Choosing not to mess with success, Leasing and Fleet Sales Manager, Don Langefeld, notes that '89 models will basically be carryovers. "Aerodynamic styling and performance have been key



Lincoln-Mercury's Langefeld: With everyone improving styling and quality, the tie-breaker for fleets will be service.



1989 Sable LS

to our fleet acceptance, but with all manufacturers following suit, the winner will be the company with the best service; that's going to be the tie-breaker." As to quality, "You've got to have it to play in the fleet game, especially with more competition from the imports."

In addition to the base buy of Taurus/Sable, Lincoln-Mercury's primary fleet cars are the sub compact Tracer, Mercury Grand Marquis and Lincoln Town car; the latter especially strong in daily rentals. The eurostyled Continental got off to a fast start in '88 and should be in better supply for '89, ready to go to the top of company selector lists at the executive level, versus Cadillac et al., while import Merkur Scorpio tackles Mercedes and BMW. The Cougar is all new for 1988 with V-8 engine discontinued, making do with an upgraded 3.8L V-6. It should show well as a daily rental.

CHEVROLET

More records fell, as Chevrolet saw car and truck fleet sales soar to 25% of total production. "It's only the third time in history we topped the half million mark [530,000 units] and see the fleet market continuing just as strong in '89" says L.G.



1989 Chevrolet Corsica Hatchback

Proctor, Manager-Field Operations, Fleet Sales. The big change was the slippage of Chevrolet's primary fleet car, the mid-sized Celebrity, to second place. Top seller is now the svelte Corsica, with some 89,000 units to fleets in '88, followed by the venerable Celebrity and the restyled, rejuvenated Cavalier subcompact which, says Proctor, "shows you what a little creative metalbending can do!" The Corsica adds a 4-door hatchback model for '89, while the Celebrity is a carryover, hanging in there until the Division's hope, the Lumina mid-size makes its debut in April, '89 as a 1990 model. Notes Proctor, "It's

The Toyota Fleet Perspective

The most important goal to Toyota is complete customer satisfaction. It's our ongoing commitment to satisfy you every step of the way. With over 1,000 Toyota Dealers nationwide, we are readily available to meet your parts, service and overall fleet needs. But it doesn't end there. With Toyota's new 36-mo./36,000-mile basic new vehicle limited warranty, your fleet's covered all the way from roof liner to lug nuts.* No deductible, no transfer fee, and a 5-yr./unlimited-mileage warranty on corrosion/perforation. For more personalized information, contact the Toyota Regional Fleet Manager nearest you.

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our second generation front wheel drive car; aerodynamic, but less 'jelly bean' than the Taurus/Sable and longer than the Celebrity. We're counting on it to be number one in commercial fleets." Rounding out Chevrolet's fleet cars is the heavyweight, full-size V-8 Caprice. The Monte Carlo is discontinued for 1989.

The Astrovan made a strong contribution to fleet sales and the new C/K full-sized pickup "took off" according to Proctor, as the small S-10 pickup contin-



Chevrolet's Proctor: Car and truck fleet sales topped a half million units for only the third time in our history.

ued its winning ways. Says Proctor, "The Astrovan was built as a cargo van on a truck chassis and isn't a minivan." Strong with utility companies, the Astrovan will be joined by an all new APV—all purpose van—in 1989.

Big news is GM's bumper-to-bumper warranty. Says Proctor, "It gives fleet administrators what they've been looking for. Essentially coverage for the life of the vehicle, which for most companies is 36 months/50,000 miles before replacement." The basic terms of the warranty are 4 years/50,000 miles; the first 12,000 miles covered completely, the remainder, up to 50,000 miles, with \$100 deductible.

FORD

Ford fleet sales accelerated sharply to new heights—430,000 cars and 95,000 trucks; 22% and 19% of total production, respectively. The mid-sized, streamlined Taurus accounted for more than 236,000 unit sales. Ford's leading car had some teething problems early on when it was introduced in 1986. "But that's all behind us now," says B.G. Willis, General Fleet, Leasing and Rental Manager, "the car is vastly improved and the overall fleet acceptance of our product line, especially Taurus and the compact Tempo is nothing short of tremendous. With more product available for fleets, we expect 5-



1989 Ford T-Bird

6% sales boost and a full point share increase for '89" Willis' department has a successful program under way that places new cars with select major fleets who'll roll up the miles fast. "That way we're able to spot problems and keep small flaws from becoming major ones."

In addition to the leading Taurus and Tempo combination, Ford's '89 lineup has an all-new Thunderbird—strong in daily rentals, the sub-compact Escort, and the full-size perennial favorite, the Crown Victoria. Willis notes Ford is "Number one in the world with trucks, led by the F150, and the Aerostar van, stretched for '89 and offering dual rear doors, should have even greater fleet acceptance."

Interestingly, Ford notes the engine of choice in the Taurus is the V-6 by a fairly wide margin; bucking the trend to fours. As to leasing, Willis doesn't see a tremendous amount of switching from ownership, but feels "people are starting to understand the concept of leasing better; that is, you're buying only a percentage of the car's life." And Ford's success secret? Concludes Willis, "At Ford we have great confidence in our public to spot value and vote with their dollars; you might say the best got better!"

CADILLAC

The market for executive level/luxury fleet vehicles is a mere 100,000 units and Cadillac is fighting hard to keep its dominant share. "The luxury end isn't secure against imports; the senior staffer obviously has a more personal choice as op-



1989 Cadillac Sedan DeVille

posed to, say, a field sales rep," says David P. John, Manager Fleet & Leasing. For 1989, the DeVille and Fleetwood models have been totally restyled, with longer wheelbases allowing additional rear legroom and 2.3 cu ft extra trunk space. The stretched Eldorado, Brougham, Seville and Allante sports model complete the line.

Under the new tax laws and stockholder's scrutiny, luxury cars are not without their problems. Says John, "We have to overcome mindsets against luxury cars for company use. They're wise investments because they're perceived at full value by the user, yet a \$25,000 car may be costing the company only half that. It's really the best compensation and actually saves the company money."



Cadillac's John: The perceived value of luxury cars is far greater than their actual cost to a company.

According to John, Cadillac has carved itself a niche as an incentive, with direct sales companies. Mary Kay Cosmetics, for example, has offered pink Cadillacs to its top producers for more than 20 years with great success. "The Cadillac has become a key part of their marketing thrust," says John. Some 15% of Cadillac production is to the fleet market, of which the lion's share goes to daily rentals. "It's the best exposure for the product we could possibly have; a demo the customer pays for," John notes.

CHRYSLER

A strong force in fleets since the introduction of its compact K cars—Valiant and Reliant—Chrysler also reports a record '88 for fleets, moving over 400,000



Chrysler's Barton: The new 'Spirit' and 'Acclaim' complete our lineup, with initial '89 fleet orders up 35% overall.

cars and trucks. The momentum continues for '89, with initial orders from fleets up 35%, reports to H.L. Barton, General Manager, Fleet Operations.

New for '89, a step up from the K cars, and going head to head with Chevrolet's Corsica, are the Dodge Spirit and Plymouth Acclaim. "We have no gaps in our line and can fill any fleet need, with these new entries and the former AMC



1989 Dodge Spirit

products now in the fold," Barton notes. The ex-AMC types include the 4wd Jeep line and the mid-sized Eagle Premier.

The fleet car lineup includes: Sub-compact Horizon/Omni and Shadow/Sundance; rental favorites, the K cars

hanging in for another season, Dodge Dynasty—to compete against the likes of Pontiac 6000, and new Spirit/Acclaim. New Yorker/Landau take aim at the luxury/executive niche.

On the truck side, Chrysler continues to sell all the Caravan and Voyager wagons it can make—125,000 to fleets, and new "Grand" stretched versions are on-line for 1989.

OLDSMOBILE

It was steady as she goes for Olds in '88, with 19% of production, 111,000 units, going to fleets. "We've always been considered a 'second level' car," says C.E. Dietrick, National Fleet Sales Director, "more for a district sales manager, as op-



Oldsmobile's Dietrick: Our more powerful 'Quad 4' engine is helping fleet managers keep drivers happy and costs down.

posed to a salesman. We have more perk perception." The best-selling fleet car at Oldsmobile is the mid-sized Cutlass Ciera, which gets a restyling for '89 and hangs on until the Fall '89 introduction of the new W body for 1990, which will compete with Mercury's Sable.

Other fleet offerings include the compact Cutlass Calais, replacing the Fierenza and offered in a 'value leader' model un-



1989 Oldsmobile Cutlass Ciera SL

der \$10,000, Cutlass Supreme, full-sized Delta 88 and 98. Dietrick sees more pressure on fleet administrators from drivers requesting 6-cylinder engines, but notes: "We're finding our new Quad 4 engine, with a lot more power, is one way to keep the drivers happy." He also sees some shift from ownership to leasing, as "companies are finding better ways to use their cash than tying it up with fleet cars."

PONTIAC

Not to be outdone by its GM counterparts, Pontiac also set an all-time fleet sales record in '88. According to J.L. Losch, Director, Fleet Sales, the Division



1989 Pontiac Bonneville SSE

moved more than 135,000 cars for an increase of 22% over '87. Stalwart of the commercial fleet line is the mid-sized 6000 (body a la the Chevrolet Celebrity, Buick Century, Olds Cutlass), which gets a major facelift for '89 and "will be around a few more years", says Losch. The W body, which made its first appearance in '88 as the two-door Grand Prix, more suitable for daily rentals, will emerge as a four-door in the 1990 model year and is expected to gain more commercial fleet business.

Pontiac's complete fleet line includes the LeMans subcompact, popular compact Sunbird, the in-between Grand Am, mid-sized 6000 LE, sporty Grand Prix—Motor Trend's "Car of the Year" and full-sized Bonneville LE. The huge Safari wagon stay on as the Division's only rear wheel drive car. Pontiac will also roll out its first minivan in '89. The yet-to-be-named 1990 "APV" should help in Pontiac's quest for another banner year.



As a rule of thumb, big American companies buy American cars, period. There will be import incursions here and there, but nothing to make the fleet folks at the Big Three lose any sleep. Runzheimer, the people who keep track of such data, note that import content in U.S. fleets rose from 2% in 1982 to 7% in 1988. Not a big deal, but the beginning of a trend, perhaps?

Vehicle availability, a perennial problem with imports, is enroute to being solved as more "trans-plants"—U.S. assembly facilities—and co-venture plants come on line; e.g. the Ford/Nissan minivan plant in Avon Lake, Ohio, set to start cranking out product in 1991. All of which serve to blur the definition of "import" and make it easier for fleets with "buy American" policies to, well, buy American. These days, fleet administrators have to look beyond the nameplate as things aren't as they appear to be!

ISUZU

A relative newcomer, Isuzu nonetheless has an active fleet program, looking forward to increased supplies via its new assembly plant in Lafayette, Indiana, set for September, 1989. "Meanwhile," says

Fleet Manager, Harry Beyer, "we're pushing at the major leasing companies to get our products on their selector lists and in fact are now on the GE and PHH lists." From that point, of course, it's up to a company's fleet administrator to choose from Isuzu's popular one-ton pickup truck, 4-door sub-compact I Mark, or Trooper 4-wheel drive utility vehicle.

MAZDA

Mazda has consolidated its sales and marketing entities into one company, Mazda Motor of America, Inc. According to Richard Dennis, Manager, Fleet Sales, the company has upped its retail share of market to 2.5% from 1.7% and is going all out for fleet sales. Says Dennis, "Out of 900 dealers, we've signed 700 to our fleet program and offer a full year incentive program; a no-charge option package or cash off invoice." In September, 1990, Mazda will be assembling vehicles in Flat Rock, Michigan, allowing more product allocation to fleets. The '89 fleet lineup includes the subcompact 323, in the Ford Escort class, and the intermediate 626 model, to go against the likes of Chevrolet's Celebrity. The 929 luxury sedan is aimed for the executive suite. All Mazdas for '89 are front-wheel drive with fuel injected engines.

MITSUBISHI

While Mitsubishi's commercial fleet sales are slight, it now offers incentive programs ranging from \$500 to \$1,000 off dealer invoice for fleets; defined as five or more vehicles. Terrence Dempsey, Fleet Manager, notes that "deals have been struck with major rental companies, including Avis." Mitsubishi offers the Gallant and Mirange subcompacts, Sigma 4-door compact, minivan, 2 and 4-wheel drive pickup trucks.

NISSAN

After slumbering somewhat in the fleet market and concentrating on retail, Nissan is wide awake and geared for fleet business. According to James Watson, Fleet Manager, "We're getting a good reception from rental companies and fleets alike, thanks to increased incentives ranging \$400 to \$1,000. And for the first time, Nissan has made it onto major lessors' selector lists." In fact, Nissan is installing its Datanet system at GE Capital to expedite ordering and service. Fleet offerings for 1989 include the compact Sentra, made in Smyrna, Tennessee, along with light trucks, the executive-level 4-door Maxima and the intermediate Stanza. Says Watson, "The intermediate level is our real target. Stanza is a carryover for '89, but we'll make a lot of noise with a new '90 model!"

TOYOTA

Toyota is one of the more fleet-aggressive imports, according to Fred Arnow, National Fleet Operations Manager, has been the number one imported fleet car for "the past several years, outselling both Honda and Nissan." Part of its success is management's commitment to allocate sufficient product to bonafide fleets, plus incentives. Toyota's primary fleet offerings are the 4-door sub-compact Corolla, to compete with Ford's Tempo/Topaz



1989 Toyota Corolla LE Sedan

and the almost mid-sized Camry, which will soon be assembled in a new plant at Georgetown, Kentucky. Corollas are also domestically produced at the NUMMI plant (joint venture with GM) in Fremont, California. On the truck front, Toyota is selling all it can get and, according to Arnow, its small truck outsold the Ford Ranger in '86 and '87.

The Perennial Quandry: Lease or Own

The question whether to lease or own is one of the most important issues facing fleet managers. The advantages and disadvantages of the two options have been debated since the fleet industry began to develop and there is no definite right or wrong answer.

There are several well-known advantages to fleet leasing: it helps free capital that can be reinvested elsewhere; can lead to a reduction in administration costs; and can be arranged on short notice.

In addition, leasing companies can relieve a company from the responsibility for fleet administration. This may lower costs, especially for small and medium-sized fleets where the responsibility for fleet management is often assigned to the purchasing manager.

One of a leasing company's most valuable services is in replacement timing: replacing the car at the right time in its life and during the proper time of the year.

Most leasing companies offer additional services such as examining repairs for warranty claims against manufacturers, recommending cost reduction practices and procedures and licensing cars.

Of course, the cost of these services plus a profit is included in the lease rate.

One fleet professional who has been on both sides of the lease versus buy argument is Wheels' Duane Berger. Before joining the leasing company, Berger was fleet manager for Cox Communications in Atlanta, Georgia. Although the fleet was 90 percent leased, he was responsible for a number of company-owned vehicles and explained why he prefers leasing. "By using a leasing company, a fleet manager is able to keep his staff to a minimum whereas in ownership, especially for a large fleet, a larger staff is required."

At Wheels, Berger is an even stronger advocate for leasing. "Some fleet managers feel that they will lose their jobs if the company switches from owning to leasing. But this isn't true. Even with all the services a leasing company can provide, they still need a decision maker."

Berger notes, "I have seen a definite shift from owning to leasing in the last two years alone. That is due primarily to the Tax Law of 1986. Many organizations are now turning to leasing companies and asking us to do a lease versus by financial comparison."

John T. Polk, V.P., Marketing at McCullagh Leasing feels that "the decision between leasing and financing has become tax motivated rather than financial, since the key ownership benefits have been removed by the new tax code; namely elimination of the ITC and lengthened depreciation." McCullagh routinely provides analyses for companies that compare leasing versus ownership situations before and after tax reform. Says Polk, "One of the most important services a leasing company can offer is to assist customers in wading through and deciphering IRS regulations to ensure they're being followed properly."

Speaking as a true lessor, Polk says, "We believe the economic advantages of ownership are uninvestigated myths in



McCullagh Leasing's Polk:
The economic advantages of vehicle ownership are uninvestigated myths in light of tax changes.

light of tax changes." Backing its theory, McCullagh has developed a computer program that shows how new tax laws track through a company's return. "Any leasing company will do a depreciation analysis", he notes, "but you have to take it a step further and consider the effect of the Alternative Minimum Tax (AMT), which is a sleeping monster that two or three years down the line will dilute prior years' depreciation. A company has to

consider its total tax position, of course, not just fleet vehicles. All we can do is point them in the right direction and make them aware of the potential effects at AMT." McCullagh sees its main growth coming from smaller fleets—under 500 units—and the roughly 40% of larger fleets who have traditionally owned vehicles. The remainder, of course form the natural tug-of-war arena for all major leasing companies, such as PHH, GE Capital Fleet Services, Lend Lease, Wheels, McCullagh Leasing, et.al.

One the Other Hand . . .

Leasing companies may not generally provide preventive maintenance or safety programs. They may or many not attempt to control fuel or tire costs, even though these dollars may represent half of the



1989 Pontiac 6000 LE

cost of operating the vehicles. Some companies claim that leasing reduces paperwork. Perhaps, but this feature should be carefully reviewed because such tasks as processing requisitions, verifying orders, reviewing and processing monthly leasing invoices and reviewing reconditioning charges could result in an even greater internal workload.

Under ownership, the fleet manager generally deals with and establishes a rapport with dealers. The introduction of a third party, the leasing company, breaks down that relationship and can cause additional clerical work and cost.

All leasing companies attempt to achieve savings in the areas of equipment acquisition and disposal. However, the lessee loses direction control over the prices the company is charged for new cars, for reconditioning and for used cars. The lessor also has an impersonal interest in the replacement of units. Frequently, fleet managers because of their direct interest, can obtain lower new car prices and higher prices for used cars than the leasing companies.

Most reputable leasing companies acknowledge that leasing is not always the best method to acquire fleet vehicles. For example, a firm may not wish to lease if:

- The firm has surplus capital which it cannot use profitably elsewhere in the business, or can borrow at very low rates.

- The company can secure new and used car prices equal to those obtained



1989 Oldsmobile Cutlass Calais SL

by leasing companies.

—Sales representatives are paid on commission without car reimbursement.

The Ownership Option

Many companies prefer to purchase vehicles because ownership offers more direct control of the fleet operation than possible through leasing. Owning is also a viable option if an organization has a capable fleet manager and adequate funding. Debbie Mize, fleet manager Hallmark Cards is a firm believer in fleet ownership. Hallmark owns all of its 1550 vehicles and has done so for many years. "I'm very partial to owning," she asserts, "because it is the company philosophy that I was trained in and has worked very well over for the years. But the element of control is my strongest argument for owning. I am completely in charge of purchasing, maintenance and used car marketing functions. A leasing company can't possibly know Hallmark's vehicle needs as well as I do." Other reasons why a company may elect to own include:

—Fleet dealerships and/or manufacturers are selected by the fleet manager. Under a leasing arrangement, the leasing company might link your organization with a dealer that will not provide satisfactory service.

—When disposing of purchased vehicles, the fleet manager is familiar with auctioneer or other seller, the price the seller is obtaining and the terms of the transaction. Under most leases, disposal is in the hands of the leasing company.

—While ownership carries with it a significant amount of paperwork, leasing produces its own sometimes more burdensome administrative workload. This is because, requisitions must still be processed, orders authorized, monthly leasing invoices reviewed and processed and reconditioning charges verified.

—Purchasing offers more financial flexibility than leasing. When a company takes a bank loan to purchase vehicles, several options are available: the loan can be paid back early, repayment can be varied or the credit term can be extended without penalties.

Ownership Stumbling Blocks

The biggest problem faced by a company-owned fleet operation is getting

funding. What else is new? Normally, the department operating the fleet needs an appropriation from the Board of Directors before it can replace vehicles. Frequently, the Board finds better uses for the money, and vehicles aren't replaced when they should be.

Sometimes appropriations are made, but instructions are given that the expenditures be spread over the entire year.

Often, inexperienced management believes that keeping vehicles in service as long as possible reduces costs. This type of management fails to understand that as equipment ages, breakdowns, accidents, lost time and repairs, as well as fuel and oil consumption, all rise.

Any company considering full or partial fleet ownership, should consider the following checklist as a starting point:

- Is the fleet large enough to allow hiring either a professional administrator or a fleet management firm?
- Can the administration cost be justified by savings?
- Does the company have ample surplus capital to invest in the fleet, or a low borrowing interest rate?
- Will the cars operate at least 12,000 miles per year? (Below this mileage, employee reimbursement might be more practical.)
- Will cars be kept more than 12 months? (Most lease contracts are written for a minimum of 12 months.)
- Are high reimbursement rates being paid to sales personnel for the use of personal cars? (If so, ownership might be less costly.)

If your firm's fleet is large enough to obtain professional fleet management and also has a source of low cost capital, the company might consider owning its automobiles. If not, call a leasing company; bearing in mind that, ultimately, professional management with adequate cost controls can usually achieve substantial savings.

—L.M.

Case in Point: Data Air Courier Rolls Its Own

"Time is of the essence in this job", explains Data Air Courier's Vice President, Administration, Sandra Klontz who, in her fleet manager capacity, oversees some 100 Chevrolet mini vans and several Celebrity wagons. The fleet transports tons of 'bank paper' cancelled checks and other financial documents with no intrinsic value, in 13 major metropolitan areas.

"Our fleet operation has to be on time, because we interface with the schedules of the commercial and charter air carriers that move bank documents from local branch banks to the Federal Reserve banks. We can't be late," she emphasizes.

Klontz is a believer in the Chevrolet line of mini vans. "We have the Astrovan exclusively," she says, "equipped with

Chevy's heavy duty payload package. They get the job done and are much cheaper to operate than a heavier vehicle, say, a one ton van. All our vehicles are company owned; we have the cash and prefer to eliminate leasing company middlemen. Data Air Courier's vehicles are 'turned'—replaced—at approximately 18 months and/or 110,000 miles.

"Right now we're turning over the remainder of 1986/87 models, selling them with 110,000 to 120,000 miles. And we're getting a decent return, considering the high mileage, averaging 25% to 30% of the original price, despite the fact there's a glut of used vans on the market.

"The Astrovan with 6-cylinder engine has been an outstanding performer, a reliable van with minimal downtime. In our business, downtime is very detrimental,



1989 Chevrolet Astro

since the documents we transport affect the transmission of millions of dollars in bank funds," says Klontz.

Reliability results from proper maintenance, which Data Air Courier, Inc. farms out to Consolidated Service Corporation, under a maintenance management program. Drivers carry a coupon book that allows them to get oil changes, filters and such at national account stores and participating Chevrolet dealers at specified mileage intervals. "Most important," notes Klontz, "the maintenance is recorded and traceable through exception reports provided by Consolidated. If a driver misses an oil change, we know about it here at headquarters."

Klontz reports directly to the president. "DAC's investment in vehicles of about \$1.25 million is one of its larger corporate expenses. Obviously, that helps me access top management," she says. "and it makes my job visible. Anything that reduces the value of DAC's investment in the vehicle fleet, whether it be poor personnel choice, damage to the vehicles, maintenance problems, or selection of the wrong equipment, hurts us."

Klontz thinks fleet managers should stress the importance of the second hand vehicle buyer. "Managers should realize that the purchaser of a used vehicle is a retail buyer. Those buyers could go somewhere else to buy the lower priced, pre owned vehicle they're looking for. They don't have to come to us, or the brokers we sell our vehicles to. They buy

because we offer good values."

Klontz's background contributes to her success as DAC's fleet manager. Following a career with an insurance underwriter, she took a job with a car dealer in the Chicago area. "The boss came to me one day looking for ways to increase his fleet sales. One thing led to another, I started servicing fleet clients, and one of them, DAC, took me on as fleet administrator. It was a natural," she says.

In five years with DAC, Klontz has established a successful in-house safety program, and is Vice Chairman of the Chicago chapter of the National Association of Fleet Administrators.

"NAFA is one of the best tools available to a fleet manager for networking and exchanging ideas, since many companies have fleets with similar problems. Through NAFA we can get together and find out how the other guys do it, how they best use their resources."

Klontz concludes with a bit of advice for both fleet administrators and top managers: "Communicate constantly with management," she urges. "and management, communicate with your fleet administrators to better understand their business. Together, you can conserve vital corporate assets and help your company grow."

—B. W.

Case in Point: Matsushita's Economics Lesson

"There are several key areas of responsibility that concern a fleet administrator," according to Stanley Liebowitz, Fleet Manager for Matsushita Electric Corporation of America; parent of Panasonic, Technics and Quasar. "These are to select and acquire vehicles at the lowest possible cost, that meet all the job specifications; control operating costs for those vehicles; provide inexpensive temporary transportation for drivers when a vehicle is down; and dispose of the vehicles at the highest possible return. In short, follow the most cost effective courses of action."

When Liebowitz came from accounting to take over Matsushita's fleet department in 1981, the company operated 430 vehicles, via closed end lease. "One of our initial projects," says Liebowitz, "was to conduct a six-month study to determine if the leasing method was cost effective." The answer was a resounding "no," and the company changed to an open end lease, resulting in annual savings of more than a quarter million dollars. As Liebowitz explains: "In a closed end lease, the company is not responsible for the vehicle at the time of disposal, except for damages beyond normal wear and tear, and a penalty for any mileage above the contract limit."

"By comparison, in an open end lease, the difference between what Matsushita

TOP TEN FLEET LESSORS

(Cars & trucks, excluding rentals)

Rank	Lessors	Total Vehicles
1	GE Capital Fleet Services	420,000
2	PHH Avis (owned by PHH)	290,000
3	GE Capital Auto Lease, Inc.	193,000
4	Wheels	100,000
5	Lend Lease	85,000
6	McCullagh	80,000
7	ARI	75,000
8	Lease Plan USA	70,000
9	U.S. Fleet/Hertz	68,000
10	Security Pacific	51,000

Source: Automotive Fleet 1988 Fleet Book

owes on the car and what the leasing company receives on its sale is credited or charged to our account. For example, if Matsushita owes \$5000 for a vehicle which resells for \$7000, that \$2000 is credited to us. However, the reverse is also true. If we only receive \$5000 for a car on which we owe \$7000, then Matsushita has to pay the leasing company \$2000 to clear the car. In other words, in open end leasing, we take the gamble; in closed end leasing, the leasing company takes the risk. But in doing so, it creates a large cushion to insure it does not lose on the sale of the vehicle. In our case, that cushion was so great that by changing the lease, gamble or not, Matsushita was still able to save over \$250,000!"

Seven years later, the Matsushita fleet has virtually doubled, to 850 vehicles; 780 passenger cars, the balance mini vans and light trucks. And leasing still best suits Matsushita's needs Liebowitz notes, "Owning simply wouldn't be practical for our company. I supervise a staff of two; if we owned the fleet, my staff would have to increase substantially to compensate for the work currently being handled by the leasing company."

But does that mean, as many in the industry fear, that leasing companies are eliminating the role of the fleet manager? Not according to Liebowitz, who asserts, "I manage the fleet with the leasing company's assistance. Their expertise comes into play during the acquisition period. With only 850 vehicles, I do not have the same buying power. Their total volume is such that they can negotiate better deals with the manufacturers. And their assistance at disposal time is also invaluable, as they visit different auctions, accepting the highest bids possible."

Matsushita's fleet currently consists of four and six cylinder cars, divided among the Big Three American carmakers. At this time, the company does not have plans to acquire foreign cars, due to availability problems and price concerns. "The Amer-

ican manufacturers offer fleet incentives that the imports do not," explains Liebowitz, "which can add up to significant savings."

Another area where Matsushita has cut costs is insurance. In 1986, the company paid \$151 per car per year for physical damage. The following year, the insurance company was proposing an increase to \$325. "I felt that \$151 was on the low side, but \$325 was ridiculous," notes Liebowitz. "After discussing the situation with our finance department, Matsushita decided to become self insured, taking on the responsibility of physical damage while the insurance company still handles liability. In 1987, we discovered, to our surprise, that while we had more accidents, the repair costs were lower than the previous year."

As for the future, the fleet department will put more emphasis on safety. For example, this fall, the company will implement a two week "Buckle Up" campaign. An informal survey will be conducted to determine the percentage of employees wearing seat belts. Then, with the cooper-



Stan Liebowitz,
fleet manager,
Matsushita Elec-
tric Corporation
of America.

ation of the New Jersey Safety Council, "The Convincer," a machine that descends on a ramp and stops suddenly at 10 mph, will go to work in the firm's lobby. "That jolt will give employees who take the ride a better idea of what it would be like to stop short at speeds of 30 mph or more," Liebowitz says.

The goal is to encourage employees to pledge to use seat belts every day for a two week period. "At the end of the two weeks, we hope that 'buckling up' will have become a habit. If the results are positive," says Liebowitz, "we will implement the idea to other Matsushita regions nationwide."

A NAFA Member, Liebowitz recently joined the Automobile Fleet and Leasing Association to obtain what he defines as "another perspective on fleet concerns." As he concludes, "the learning process is never ending; the field is always changing and the fleet manager must be flexible enough to change with it."

—L.M.

A Symbiotic Situation

Fleet administrators and leasing companies: what roles should they play? How much responsibility should each have for the fleet function?

As part of their defense of company ownership, many fleet managers argue

that their counterparts who lease will become lazy. After all, with a leasing company handling most of the fleet responsibilities, what is left for the fleet manager?

"Plenty," says Bob Wagner, Manager, Fleet Administration, for Eaton Corp., in Cleveland, and Membership Committee Chairman for NAFA. "Eaton uses leasing services, but they only handle certain fleet functions such as acquisition and ensuring that each vehicle is legally registered. I must still provide them with the vehicle specifications and handle maintenance and disposal."

"If fleet is only a small part of a manager's responsibility, i.e. the fleet manager is also the risk or purchasing manager, he can learn to rely quite heavily on the leasing company simply because he doesn't have time to concentrate on fleet. But when fleet is a full time job, the fleet manager's position is absolutely essential," Wagner concludes.

Pat Rishell, Auto Fleet Manager, Safeway Stores Inc., Oakland, California, agrees. "The fleet manager makes a leasing company's job easier, rather than the reverse," she says. "If Safeway didn't have a fleet manager, the leasing company would have to talk to 50 people to place one order. Instead, I talk to those 50 people and the leasing company talks to me. This is true in most cases since all order processing must go through the fleet manager. In short, fleet administrators are indispensable middlemen."

While advocates of the fleet "purchase" argue that owning allows for tighter control and organization of the fleet, others, like Lorillard's Fleet Manager Sal Giacchi believe that control can still be maintained even when leasing. Responsibility for Giacchi's 1200 vehicles is divided between two leasing companies, but Giacchi still requires the services of three additional full-time staff members. "A leasing company is an extension of your staff, but can't take the place of employees who are familiar with the compa-

ny's day to day problems. I inform the leasing companies of my needs and then monitor their functions. In the final analysis, I'm responsible for what works and what doesn't."

"Leasing companies need fleet managers just as much as fleet managers need leasing companies," according to Connie Wesley, manager of fleet operations at Honeywell in Minneapolis. "We need their help because they cut the company's overhead; we don't need as many people at Honeywell since the leasing company does some of the work those people would normally do. But fleet managers set policies and procedures."

To work more efficiently, a sense of trust and satisfaction with the leasing company is also necessary. Fleet managers must feel comfortable with the leasing



1989 Ford Aerostar

company or companies they choose; they must have a strong sense that they are receiving the best service available.

"When choosing a leasing company," says Wesley, "we take an extensive look into their resale history to determine if they get the top dollar for used cars."

Another important factor she mentions is a leasing company's degree of automation. "If records are kept manually and a fleet manager is not able to obtain up-to-date computer read-outs of vital ve-



1989 Plymouth Acclaim

hicle statistics, it does not bode well. Any leasing company that Honeywell does business with must fit into our general corporate structure and system."

Some fleet managers only feel comfortable dealing with just one leasing company, while others believe that working with several guarantees competitive prices. "Dealing with one company allows me to make better arrangements and save more money than if I were dealing with several," says Rishell.

Wesley believes just the opposite, "We use two leasing companies to get the best deal possible. With bids coming from both companies, we can compare them and ensure that each one is fair. This improves our position at negotiation time since we'll also have the competitor's bid."

Wagner agrees: "Two is the magic number. Using three or four companies makes administration difficult, but by using and comparing two, the fleet manager can immediately spot weaknesses in service levels." Summing up, the presence of a leasing company doesn't negate the need for a fleet manager. In fact, they can ideally complement each another and ultimately contribute to more cost-effective fleet operations. —L.M.

INFORMATION, PLEASE

1989 Automotive Guide Books Facts, figures and fleet recommendations available from major lessors, including:

- ARI, Inc., 444 W. New Kings Hwy., Ma. le Shade, NJ 08052
- Avis Car Leasing, PO Box 117, Carle Place, NY 11514
- GE Capital Fleet Services, 3 Gelco Dr., Eden Prairie, MN 55344
- PHH, PO Box 2174, Baltimore, MD 21203
- McCullagh Leasing, 30803 Little Mack Ave., Roseville, MI 48066
- U.S. Fleet Leasing, Inc. (Licensee of Hertz System), PO Box 5933, San Mateo, CA 94402
- Wheels, Inc., 666 Garland Place, Des Plaines, IL 60016

Bunzelner Reports 555 Skokie Blvd., Suite 340, Northbrook, IL 60062; (312) 291-9011.

- **Transportation Report**—Monthly newsletter on car/fleet management (\$247/year).
- **Fleet Maintenance & Safety**—Monthly technical newsletter for fleet managers (\$96/year).
- **Cars and Living Costs Informative**, free monthly report.
- **1987/88 Survey and Analysis of Business Car Policies and Costs** Invaluable to track trends and compare your company's fleet costs (\$356/copy).
- **Travel Management** Monthly newsletter focuses on control of rising travel costs (\$295/year).

- **Computerizing Fleet Management** A Succinct how-to for fleet executives (#100 @ \$49.95/copy).

National Association of Fleet Administrators (NAFA) 120 Wood Ave. South, Iselin, NJ 08830; (201) 494-8100.

NAFA Fleet Manager's Manual Everything you need to know about cost-effective company fleet operation. Includes acquisition, expense control maintenance, safety, vehicle disposal and more (Non-members \$125/copy; members \$35).

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FROM THE EDITOR IN CHIEF



The dust settles and there is silence in the land, as if the choir had sent its final note soaring and we now await our preppy good pastor. Reverend Bush, Big Business has settled in to listen.

How troubling it is that Big Business has been waiting so long. For the whole of the sophomoric and therefore boring campaign (in which each party sent the least of its candidates forth, and each of those candidates managed to find a running mate of even less fiber), business has wanted to hear just one

thing, truly: What plans have you, dear Pastor, to ease the federal budget deficit?

The answer you have given, as near as the men and women directing the great corporations of this country can determine, is: none. They are angry, or at least the 25 or perhaps 30 to whom we have spoken are. And they feel no little betrayed. Their anger and deep worry is shared by the great many more CEOs who participated in this issue's survey by Yankelovich Clancy Shulman. Disturbed as they were by your choice of a Vice President (one CEO of an astonishingly large Midwestern corporation said: "That was stupid; that little man is an idiot, and it's enough to make me vote for Dukakis—but I didn't"), they stood by you. They believed and, most certainly, still believe, in very general terms, that you stand for things they hold dear, such as free enterprise, less government, strong defense, cutbacks in social programs—the American/Charlie Wilson virtues.

Everyone applauded Alan Greenspan, who said recently and publicly that something has to be done. Greenspan really lays it on the line. But he's not one of yours. It has been reported that business is happy that Nicholas Brady is staying on, but such glee is not universal. Another CEO, from a natty corporation just west of the Midwest, said: "Who cares about Brady? He was part of the last administration that didn't do anything about it [the deficit]."

All are aware of your tiptoeing through the campaign in this and nearly every other matter. You spoke of tax cuts, of all bizarre notions, in several areas, which included: capital gains, a sort of centerpiece of the program; a child-care tax credit; various breaks for the oil and gas industry that would reduce governmental revenues; breaks for companies that would put more into research and development. Beyond these there were frequent vague references to a "flexible freeze" in spending. Applause, applause. Businessmen like all the breaks they can get. But they wait. They await the pastoral message in the silence when the choir's echo has died. What they might do in their own companies hasn't much bearing on the federal deficit. But to a man, or person—there were several women, too—they said the dumbest remark of the long campaign was your braying insistence that taxes would not be raised. One CEO, whose company holds lots of government contracts, said: "He'll have to call it something else then, make up one of those loony government euphemisms. But he'll have to do it." This theme was echoed throughout BUSINESS MONTH's travels. It is inescapable and you must know it, and so must your followers. The deficit must be reduced, and specific sizable, responsible and humane cuts must be made in spending.

Most important, and this comes from the very cream of the crop of the Americans you most admire, is the matter of taxes and their increases. Before you speak to us this morning, consider the views of the lieutenants of industry (the era of the captains is perhaps returning, but not yet here), who are profoundly worried about the deficit and who look to you to lead us from this wilderness.

Before you speak, sir, read our fingertips: Taxes will have to be raised.

JOHN VAN DOORN

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NORFELLER

PERSPECTIVE

What does the Salinas administration gain from airing the volatile issue of foreign investment? "Mexico would rather have investors than creditors," says Carlos Rojas, an American businessman who keeps in close touch with

many Mexican companies. Though there is still no legislation moving through the Mexican Congress, the guessing is that the rules will be liberalized this year. Besides, as one Mexican businessman put it, "The bureaucracy makes

the law." And right now it is moving inexorably toward opening up Mexico to foreign investors. —P.B.F.

High Hidden Costs of Globalization

AS THE TREND TOWARD GLOBALIZATION CONTINUES and companies find themselves operating in an increasingly integrated world economy, they will face greater competition for talented executives. As a result, says Robin Holloway, managing director of Towers Perrin Foster & Crosby, an international management-consulting firm, "They must be prepared to offer total compensation packages—including incentive payments, benefits and perquisites—that are as effective and competitive wherever they do business." According to a study conducted by TPF&C, which analyzed executive compensation in industrialized countries around the world, most companies (\$100 million and over) do offer a variety of options for their chief executives. However, T. Boone Pickens's complaints notwithstanding, U.S. companies provide the only significant opportunities for long-term incentives, or stock-option plans. The following chart breaks down the total compensation for chief executives in a sampling of industrialized countries.

WHAT CEOs GET PAID (In U.S. dollars)



CHART BY NINA WALLACE

Possible Trend: Sue Defectors

HAS MANAGEMENT found a way to stop valuable employees from saying the words every American believes are his god-given right: "You can take this very lucrative position I single-handedly developed and shove it"? The verdict is still out, but a series of pivotal cases have certainly dampened the entrepreneurial spirit.

In late October, Arthur Andersen & Company, the Chicago-based big eight accounting firm, sued the giant advertising conglomerate Saatchi & Saatchi & Company and several former Andersen executives for conspiring to destroy the firm's management-consulting business. Andersen claims that employees who were planning to go to Saatchi & Saatchi tried—while they were still on the accounting firm's payroll—to persuade some of their clients to go with them.

That suit came hot on the heels of similar actions by another big eight Chicago firm, Arthur Young & Company, and London's WPP Group PLC. Arthur Young's charges are similar to Andersen's: Employees were leaving its consulting unit and tried to take part of the business with them. WPP sued to prevent a team of senior executives who left Lord, Geller, Federico & Einstein, a relatively independent advertising subsidiary, from starting another agency. WPP argues that a noncompete agreement signed in 1974 when J. Walter Thompson bought Lord, Geller remained in force after WPP bought J. Walter Thompson in 1987.

"No question about it," says Michael Epstein, a partner at

"IT IS ALMOST INCOMPREHENSIBLE that so few American engineers speak and write Japanese. A worthy goal would be for them to learn Japanese as a second language. The continued failure to do this will almost surely deny us a large body of important technology."

Norman R. Augustine, Chairman and Chief Executive, Martin Marietta, in a speech to Rensselaer Polytechnic Institute, Troy, New York, September 23, 1988

Weil, Gotshal & Manges, a New York law firm that has a new division specializing in just such cases. "Companies are more willing to take legal action to protect their competitive positions." And since the courts have ruled increasingly for the employers who allege a need to protect their "investments" in employees, the suits are likely to continue. Thus, although a court can't prevent an employee from leaving and taking his skills with him, it can forbid him from soliciting former clients and from using specific techniques that were, presumably, developed at his old firm. Unfortunately, these are the two most valuable assets he can take to his nascent business.

Still, drawing the line between skills and employer-protected techniques isn't easy, and even in clear-cut cases, employers don't always score a victory. WPP did win an order blocking its former employees from soliciting its clients, but the judge took so long to come to a decision that by the time he signed the order, most of the clients had already flown the coop.

—HOPE LAMPERT



HIGH ANXIETY

The economy keeps chugging, and the Reagan legacy survives. But the 609 CEOs in our second annual survey are anything but sanguine as they look to the 1990s.

BY STEPHEN W. QUICKEL

WHERE'S THE CHAMPAGNE? Where are the funny hats? Chief executives would seem to have a lot to celebrate. Business, even after six lush years, is still gaining. Inflation is low. Interest rates are reasonable. Trustbusters and union firebrands have scattered to parts unknown. And now a Republican (and former CEO) is in the White House for four more years. What more could a captain of industry want?

Plenty, it appears. To judge from their responses to BUSINESS MONTH's second annual CEO survey, top corporate managers are in a singularly somber mood. And our researchers didn't have to look hard to find the reasons. The big downer, of course, is the \$155 billion federal trade deficit, which hangs like a Damoclean sword over the economy and the prepubescent Bush administration. A close second is the negative trade balance, which seems, like a mutant bacterium, to resist treatment. To no less than four-fifths of the 609 CEOs participating in the survey, the budget and trade gaps are the most serious threats facing U.S. business. As business leaders realize, the deficits could at the very least touch off major tax increases or send interest rates soaring. At worst, they threaten to undermine U.S. industry's struggle for competitiveness in world markets and deepen the nation's descent into creditor status.

But that's hardly the only reason top executives aren't uncorking the Dom Perignon these days. While most of them be-

Stephen W. Quickel is a contributing editor of BUSINESS MONTH.

BEHIND THE STUDY

Our objective in commissioning the poll was to create a profile of chief executives' attitudes about the challenges facing American business in general and their companies in particular. From August 3 to September 28 of last year, interviewers from the marketing research firm of Yankelovich Clancy Shulman met with 609 chief executives. During hour-long discussions, the executives were asked 44 questions.

The bulk of the questions were aimed at measuring corporate leaders' opinions on a wide range of economic and business issues. In addition, the CEOs were asked a number of open-ended questions to elicit a more detailed explanation of their views.

Yankelovich chose the sample group from a list of 3,500 companies with at least \$50 million in revenues. The group included 253 chief executives of manufacturing companies and 356 chief executives of service companies. Of those, 236 managed companies with more than \$300 million in revenues, 222 ran companies with \$100 million to \$300 million in revenues, and 151 headed companies with \$50 million to \$100 million in revenues.

Geographically, 52 percent of the companies were in the Northeast, 25 percent in the North Central region, 13 percent in the South and 10 percent in the West. Publicly held companies made up 54 percent of the sample, privately held companies 46 percent.

lieve there will be no recession in 1989, that seems to be where their optimism ends. They know how fuzzy the economic picture really is, with government projections shifting constantly. And everywhere they look, they see other knotty and, often, worsening problems for business.

CEOs are, of course, uniquely positioned to view the major economic and business issues bedeviling the nation. To get a detailed overview of their thinking, BUSINESS MONTH last year commissioned the marketing research firm of Yankelovich Clancy Shulman to conduct the most comprehensive survey of top management opinion ever taken. The results were published in our January 1988 issue. To update the study, Yankelovich once again sent teams of researchers into the field to interview the heads of a wide variety of companies. The results of this survey are analyzed in depth over the next 10 pages.

Certainly, the CEOs are a lot more worried than they were a year ago. Seven of 10 now consider soaring employee-benefit costs a serious threat to business, versus just 27 percent a year ago. Six of 10 call government regulation and the quality of the U.S. work force serious threats, about twice as many as last year. And 63 percent say toxic-waste control is a serious threat, versus only 19 percent a year ago.

As for the budget deficit, they are obviously losing patience with the government's handling of the problem. Says one: "We need a clear signal—and soon—that Washington is getting its financial house in order." Says another, "If the government cannot maintain financial stability, it only encourages consumers and businesses to spend and borrow recklessly, too."

When it comes to remedies to bring

down the deficit, six out of 10 think that the new President and Congress should cut social spending. But half would also take the ax to defense spending. Needless to say, few CEOs favor increases in corporate or personal income taxes. But if more revenues are needed, 55 percent support the introduction of a value-added tax, an idea that has been gathering steam for the past few years.

Perhaps the most startling revelation in this year's poll is that only 35 percent of the executives feel "very confident" about the ability of U.S. companies to deal with the manifold problems facing them. To be sure, almost two-thirds are "very confident" that their own companies can meet the challenges. But confidence in their fellow CEOs and in themselves has deteriorated over the past year.

Their harshest criticism is reserved for industry's global competitiveness. Companies cannot control the budget or trade deficits. But they can take steps to make themselves more formidable in foreign markets, and only 5 percent of the chief executives think that American companies are doing a good job in this crucial area. Says one: "By the time we decide to be part of the international scene, it may be too late."

No one knows better than a sitting CEO how difficult it is to come from behind and penetrate new markets, especially in distant nations, where American businessmen are only beginning to deal with the many cultural, language and political differences. Although a cheaper dollar has made U.S. exports more competitive during the past year, exchange-rate manipulation is only a stopgap measure. Nor is protectionist help from Washington the answer, although a number of executives want the government to move against countries that exclude American products. The only enduring solution, they agree, is for industry to produce the low-cost, high-quality products needed to compete and establish the global marketing strategies needed to sell them.

If American corporate leaders greet the new year worried and tense, that is perhaps a good thing. Rather than being lulled into complacency by six years of prosperity, they have been galvanized into sober reassessment by a kind of competitive shock therapy. And they know there are no short-term solutions. Looking ahead to the most important issues business will face a decade from now, the CEOs believe that the federal government will still be befuddled by budget deficits, that U.S. companies will still be struggling to adjust to a global marketplace, and that hiring and maintaining an adequate work force will be even tougher and more financially burdensome than it is today.

ILLUSTRATION BY ARTHUR COHEN

BUSINESS MONTH/JANUARY 1989





THE BUSH QUANDARY

They read his lips and voted for the Vice President, but CEOs doubt he can hold the line on taxes.

BY JEFFREY H. BIRNBAUM

AT THE END OF ALMOST every speech given by George Bush during his presidential drive, hundreds of balloons were released into the sky. The red-white-and-blue display made for great political theater, but, according to critics, it also supplied an apt metaphor for the entire Bush campaign: The incoming President's stands on the major economic issues were full of hot air.

Surprisingly, many of the nation's chief executives agreed. Sure, they overwhelmingly preferred Bush to Dukakis. But few really believed that their taxes would not rise and that the economy would not sink, even with their man in the White House. "We will see higher taxes and a mild recession no matter who is in office," said one chief executive.

The CEOs, 62 percent of whom are Republicans, favored Bush by a 10-to-one margin over Dukakis. An astounding 90 percent of them said it would be better for business if Bush were elected; a mere 3 percent thought business would have been better off with his Democratic rival. An overwhelming majority worried that if Dukakis had been elected, interest rates and inflation would have soared, and 58 percent predicted that a recession would have ensued—the only questions being how soon and how bad.

But this aversion to the Democrat probably had more to do with history than with the candidates themselves. Business simply did much better under the Reagan

■ Priorities for the new regime*:

- Get tough on opening foreign markets 64%
- Cut social spending 59%
- Cut defense spending 51%
- Tighten environmental rules 42%
- Raise income taxes 35%
- Product safety and liability 22%
- Raise taxes on business 20%
- Restrictions on takeovers 19%
- Tougher antitrust actions 15%
- * Multiple responses

administration than it did under President Carter; accordingly, the CEOs backed the man who promised to be Reagan's heir.

Almost with one voice the executives agreed that the Reagan policies of keeping taxes low and cutting spending have a better chance of continuing the six-year-old economic expansion than do the policies espoused by the Democrats. And on anti-trust enforcement, federal health and safety regulations and a dozen other issues, they were persuaded of the former Vice President's desire to continue Reagan's policies of less government intrusiveness. Bush's actions and pronouncements since the election have done little to challenge that belief.

Of course, these opinions, expressed before November, were based more on faith than facts. Bush's rhetoric was purposefully vague throughout his campaign. As a result, even these staunch Bush supporters seemed somewhat skeptical. Many of the executives said that even a Bush presidency might not forestall the inevitable when faced with an economic downturn and the

pressure to raise taxes. One-third said that a recession is still likely, and nearly two-fifths expected higher inflation and interest rates during the Bush years. And despite Bush's "read my lips" theatrics, 18 percent of the CEOs thought he would raise taxes on business in particular, and nearly one-quarter were convinced that he would raise income taxes in general.

But if Bush was murky on the issues and how to deal with them, the nation's top executives were not. Not surprisingly, the corporate leaders named the budget and trade deficits as enemies number one and two. "If we don't get those things under control," said one chief executive, "it will be harder and harder to do business."

Despite the vehement complaints about the dual deficits, however, the CEOs don't want to bear the burdens of a solution. Faced with the choice of higher taxes (which surely would hit businesses and high-earning individuals such as themselves) or lower social spending, the CEOs chose the spending side of the ledger by 59 percent to 35 percent. When asked speci-



Jeffrey H. Birnbaum covered the Bush campaign for The Wall Street Journal.



cally whether they thought business taxes should be increased, a mere 21 percent volunteered to put their own balance sheets on the block.

Even when called on to decide what kind of taxes they preferred, the CEOs displayed a decided lack of egalitarianism. By two-to-one they said they liked best the levies that hurt them the least, but which fall disproportionately on lower-income individuals: sales and excise taxes. They disliked those levies that would hit them the hardest: income and corporate taxes.

While declining to make any sacrifices, the CEOs weren't shy about asking for Uncle Sam's help. Sixty-four percent of them said it is a main priority of the new President to take tougher action against countries that exclude American products. The corporate chieftains also hoped to avoid a step-up in federal regulation. A scant one-tenth thought that the next administration should bolster employee health and safety regulations or take stricter action against age and sex discrimination in the workplace.

One area in which the executives said they could countenance more spending was education—another score for Bush, who likes to call himself the “education President.” There is, of course, a large self-serving element to this stance, since business has long complained about the inability of public schools to produce workers with the skills that are needed in today's economy.

Interestingly, the executives were more dovish than is their man on Pennsylvania Avenue. Half of those polled thought a main priority of the new administration should be cutting military spending to reduce the budget deficit, and only 26 percent were confident that such cuts would be made in the Bush administration.

Several said that they doubted that they ever could come out on the winning end of a government decision—even with a friend as President. “Politicians are interested only in getting votes,” one disgruntled CEO concluded. “They are opposed to change beneficial to business.” In short, nothing much is different.

ON GOVERNMENT:

■ “Politicians overspend and don't control costs. Their way of balancing the budget is to increase taxes, and that's going to ruin the country.”

■ “The education system in the United States is not producing the quality people with the range of skills necessary to do the work.”

■ “The loss of confidence in business and government leaders is causing laws to be written that not only do not solve problems, but instead create new ones.”

■ “If we don't get the budget and trade deficits under control it will be harder and harder to do foreign business and will affect our domestic business.”

■ “There need to be fewer government restrictions on economic activity. Litigation increases the cost of doing business enormously. It weakens the ethical standards of companies and individuals and creates a mentality in business where people depend on intimidating legally.”

■ “It doesn't make any difference who is elected President. Congress is the policy-making body.”

■ “The government should subsidize certain exports the way other countries do to help develop markets.”

■ “The exchange-rate problem is probably one of the most difficult ones for American companies to deal with. The cycles of first dealing with a strong dollar and then a weak one is very difficult for all concerned. That's why we should return to the Bretton Woods system of fixed exchange rates.”

■ “Stable interest rates are vital because interest rates represent large costs for most businesses and affect long-term planning.”

■ “The reemergence of regulation—the plant-closing bill is a recent example—is the most important issue facing American business today.”

■ “Continuation of peace in the world would do more for worldwide prosperity than anything else.”

■ “I doubt that the power of the presidency means that much today.”



STORM WARNING

Along with the budget and trade gaps, corporate debt is making top managers queasy.

BY MARC LEVINSON

AFTER SIX YEARS OF economic expansion, the chief executives whose investment decisions help determine business fluctuations see no downturn soon. Yet our survey detected unmistakable signs of unease. Even as they look forward to a profitable year, the businessmen fear that the bill will soon come due for the huge Reagan deficits. Says one chief executive, echoing the reproach of many of his colleagues: "Long-term financial stability is built around the government's ability to manage its economic affairs prudently."

Although only about one in 10 CEOs said a recession is very likely this year, almost half rate a recession as "somewhat likely." Expectations diverge sharply by region, however. In the South, where oil and gas remain depressed and the boom in textiles seems to be out of steam, two-thirds say a recession is imminent. In the West, where high technology plays a disproportionate role, only 41 percent take such a pessimistic view.

On Wall Street, the big action of late has been in blue-chip stocks, with the shares of smaller companies lagging. Yet the heads of firms with sales in the \$50 million to \$100 million range are notably more upbeat about the coming year than are their counterparts in giant corporations. Why the difference? It may be that only an optimist can run a smaller company. Then again, the people who manage such firms may simply have their ears closer to the ground. Whatever the case, theirs is not a

■ Is a recession likely in 1989?

Very likely 11%
Somewhat likely 44%
Not likely at all 44%
Not sure 1%

■ Does your company have a plan for dealing with it?

Yes 61%
No 37%
Not sure 2%

blind optimism. Far more of those running companies with less than \$100 million in sales say they have a plan for dealing with a recession than do the heads of the bigger companies.

Corporate America is now seen as much leaner than it was before the 1981-82 downturn—and thus much readier to deal with a business crunch. Six out of 10 CEOs say their firms have plans for coping with a recession. "We would start making acquisitions," projects the head of a communications firm. "We're consistently cautious on loan quality," claims the chairman of a Northeastern bank. The chief executive of a manufacturing company states: "We want to make sure we are able to have our marketing team in place for years to come. If there's no sales, we don't need manufacturing plants."

Still, the basic strategies for dealing with a downturn remain unchanged: Cut workers and inventories. Despite intense concern over the availability of qualified workers in the years ahead, layoffs are still the key to many companies' recession

plans. Respondents do not mention such alternatives as reducing work hours or instituting gain sharing (under which workers get greater job security by accepting part of their income as bonuses that can be reduced in down years).

The federal budget deficit is cited as the single greatest danger to prosperity. Four out of five CEOs say it is a "very serious" or "fairly serious" threat to business, while only 4 percent say it is not. Three years after Congress passed the Gramm-Rudman-Hollings Act to stem the deficits, the corporate chiefs say that the dire consequences of the budget shortfalls are undiminished. "The budget deficit will have a negative effect in the future, and we can't predict where or when and therefore can't manage for it," said one chief executive officer.

Inflation and interest rates, by contrast, do not emerge as burning worries in this year's survey. Perhaps executives, like other Americans, have come to accept inflation in the 4 percent to 5 percent range as normal. Then again, it may simply not be



Marc Levinson is editorial director of the Journal of Commerce.

budget deficit

higher tax

a problem for many corporations: While CEOs speak of their continuing attention to cost control, very few report difficulty passing cost increases on to customers; this is in sharp contrast to the situation two or three years ago. Interest rates are, however, a source of worry for those who ponder the stability of a highly leveraged economy. "Enormous amounts of debts that have been acquired by corporations, individuals and governments have to be paid," says one. "If the world economy were to turn down, what would we do with all those debts?"

The CEOs believe overwhelmingly that manufacturing is on its way back: Three respondents in five say it will regain its position in the economy. Optimism is highest in the West, where 68 percent of the business leaders believe manufacturing is gaining in economic importance.

To propel that resurgence—and some 77 percent of the respondents believe it would matter "a lot" to the U.S. economy if manufacturing continued to decline—the chief executives stress research and de-

velopment. They want changes in the tax laws to favor R&D, and they say Washington should revise the antitrust laws so that competitors may create research partnerships. The executives are far less enthusiastic about funneling more federal research grants to universities: While 49 percent think that is a good idea, 48 percent do not.

Heady optimism about the long-term health of the economy is noticeably absent from the executives' comments, and concern for the nation's fundamental economic strength is apparent. More than anything else, it appears, evidence that Congress and the new administration are attacking the budget deficit is needed to restore the sense that the economy is on a sound footing.

Yet, in the final analysis, the nation's corporate chief executives aren't that different from the rest of us. In overwhelming numbers, they recognize that higher taxes are needed to balance the budget. And in overwhelming numbers, they would like someone else to pay them.

ON THE ECONOMY:

■ "We are being careful about our expenditures and our cost structure, and we're making sure we don't load in a lot of costs that will be difficult to take out if economic conditions get bad."

■ "American business today is not investing in itself—too much money is spent on financial games."

■ "If there is a recession, we will reorient our investment to higher-margin products, even if their long-term potential is less than some other products."

■ "You create nothing with a service economy. You create no real wealth, and it makes you terribly dependent on someone else."

■ "It's a question of whether or not we'll see the double coincidence of high inflation and poor business conditions."

■ "Foreigners are converting their dollars into American industry. If they concentrate on specific industries, it could be serious."

■ "I don't see how the world can absorb U.S. products if they are all in services."

■ "Our competitive position has nothing to do with the quality of our products. Our problem is the value of our dollar versus foreign currency."

■ "Continued growth of GNP, without inflation or recession, is essential to maintaining a strong business climate."

■ "The deficit will never be resolved without tax increases for both individuals and businesses."

■ "We have to spend time and energy understanding foreign markets and recognize the role quality plays in these markets."

■ "We just can't seem to regain the edge we used to have in the world of management and technology."

■ "There has been improvement in pride of workmanship. You can see it in the auto industry, the steel industry and in the machine-tool industry. But there are weaknesses in our education system. The urban systems are not turning out well-educated students. This will hurt us in the future."



AMERICA REDUX

Who says the country can't compete? Not CEOs, who say they are gaining on foreign rivals.

BY MARC LEVINSON

THIS IS CLEAR: THE FOREIGNERS who clobbered American companies in the 1970s and 1980s are not going to fade away in the coming decade. Sure, a weaker dollar will make U.S. products somewhat more competitive, and the Japanese, inspired by fears of a trade war, may tread with a little extra caution. But the Koreans and other Pacific Rim neighbors will become more aggressive, and after 1992, the European market may start to resemble a concrete bunker.

The question is, are U.S. companies up to the challenge? Few of the CEOs in our survey were wildly optimistic. As they see it, the United States is still being out-classed in the competitive race. An overwhelming 86 percent say Japan has the world's most competitive economy; West Germany and South Korea rank second and third. "U.S. industry is not nearly as efficient as industry in other parts of the world," said one executive.

Nevertheless, the business leaders share a strong belief that things may just be looking up for the United States. Nearly two-thirds said that U.S. companies are already gaining ground on their foreign competitors or will start doing so soon. Only one in five said that American companies will continue to lose ground.

The businessmen are ambivalent about foreign investment in the United States. While the sight of foreigners buying American real estate, securities and factories prompts little concern, there is a great deal of unease about the selling of the nation's companies. One executive in four said that legislation is needed to curb for-

■ Where do American companies stand globally?

Will continue to lose their market position to foreign competition 20%
Have reached a turning point and will soon be doing better 43%
Have already turned the corner and are gaining ground 21%
Will stay where they are now vis-à-vis foreign competition 13%
Not sure 3%

eign takeovers. "Foreigners are converting their dollars into American industry," said one corporate chieftain. "If they concentrate on specific industries, it could be very serious."

U.S. companies get a poor grade for the way they have adjusted to the globalization of the economy. Just 8 percent of CEOs said U.S. firms have done a good job of adjusting, and only 4 percent think American companies understand foreign markets and compete well in them. "The single most important issue facing us today is a slow, unwilling attitude toward international business," said the chairman of one company. "As business people we have not yet decided that we want to be a part of the international scene, whereas our competitors know they want to be part of the American scene."

But there is a striking difference between the doubts business leaders feel about American competitiveness and their satisfaction with their own companies. One in four says his firm is doing a good job of adjusting to globalization; only one

in 10 admits it is doing poorly. But these assessments may be too self-congratulatory. Fully 40 percent said that understanding foreign markets is not important to their firms. Apparently, those whose companies do not compete overseas still do not realize that today's world market trends have a direct effect on almost every company's operations.

One example of that effect is likely to come from the European Community. With its 12 members' drive toward real economic integration, European companies will probably become larger and enjoy economies of scale that will make them tougher competitors on this side of the Atlantic. Yet only 15 percent of the chief executives say their companies have plans for dealing with a united Europe, and only 12 percent say their firms are developing such plans. Fully 46 percent have not addressed the issue, with service companies lagging well behind manufacturers. Companies that do no international business have ignored the implications of European integration almost entirely.





Those executives who have examined the issue, however, conclude that American companies will have a harder time competing in a Europe free of internal trade barriers. "Europe is going to become a real common market in 1992, and they are going to be more competitive," predicts one businessman. Another warns that "1992" may be the single most important issue now facing American business. "Everything is short-term in comparison," he says.

A surprising result of globalization is the resurgence of strategic planning, which in the cost-cutting decade of the 1980s many companies have either downgraded or simply eliminated. The focus on short-term earnings is giving way just enough to allow companies to think systematically about where they want to be five and even 10 years hence. Seven out of 10 chief executives said strategic planning will require a greater proportion of their time over the next two years. "We must do more strategic things to stay in competition," says one executive.

Deeply committed to the free-market, the executives now face a philosophical dilemma. Since the governments of America's competitors back their corporations to the hilt, the United States has little choice but to follow suit, the executives say—even if that means intervening in a free-market economy. In particular, they want the new administration to take tougher measures against countries that impose barriers to American exports. "The government has to insist on a level playing field," asserts one chief executive.

But even as they call for greater government assistance, many of the chief executives admit that the nation's difficulties in competing can be laid principally on the doorstep of business itself. "The biggest single issue, in my mind, is that we haven't returned to the original style of American business, that of being innovative," says one corporate chief. "If you go way back to the height of the Industrial Revolution, America stood out like a million dollars because everything we did was better than anyone else."

ON GLOBALIZATION:

■ "We must develop strong trading companies, as the Japanese have done. These trading companies would represent business in the international markets, offering banking and financial services as well as the documentation necessary for exports and imports."

■ "The third world will provide a huge opportunity for U.S. business. But first it must develop some buying power. But the potential is there, and we must position ourselves to take advantage of it."

■ "Don't build sewing machines in Kansas and try to sell them in Japan. We must put our operations where the market is. We must learn to operate in a global economy."

■ "We are undergoing a transition from companies that can compete within the U.S. economy and that may do some exporting to an environment where the entire world is one market."

■ "Japan, Korea and Taiwan compete on a worldwide basis. We are operating in the old mode and are at a competitive disadvantage by not acknowledging the major changes that have occurred."

■ "The world runs best if all people do what they can do best. If the Japanese can make cars better or for less money, that's okay. If America can provide phone service best, it should do it for the world."

■ "Europe is going to become a real common market in 1992, and they are going to be more competitive. But it is very much a government-controlled economy, which puts artificial constraints on American businesses."

■ "We must understand the culture as well as the nature of the market in a foreign country. American companies are so often unconcerned about other people and other nations that they alienate themselves."

■ "The management-labor relationship is being transformed from an adversarial type to one in which everyone is striving toward the same goal. I'm finding that middle managers and first-line managers and some of the hourly workers aren't used to that kind of approach. But when we create that kind of culture, we are going to be extremely competitive with the Japanese."



COMPANIES IN CRISIS

For planning, innovation and efficiency, top executives give their colleagues abysmal marks.

BY STEPHEN W. QUICKEL

DO AMERICAN CHIEF executives suffer from an inferiority complex? From a bad case of false modesty? Or are they simply telling it like it is? The questions come up because of the shockingly low marks CEOs give U.S. industry for operating performance. A mere 4 percent of those polled believe companies are doing a good job of competing in foreign markets, and just 6 percent think companies are doing a good job of planning for the future. Equally damning, only 14 percent give them a high rating for producing quality products and running efficient operations.

The CEOs are not much easier on themselves. When it comes to competing globally, only one in five believes his own company is performing well. Spelling out the reasons, fewer than half of the CEOs think their companies are doing a good job in three key areas: long-range planning, innovation and operating efficiency. And only one-third say they do a good job developing new products. They give themselves better grades for producing high-quality products; yet even here, only six out of 10 rate their performance "good." Can anyone seriously wonder why we have a huge trade deficit?

Twenty years ago, American CEOs might not have been so painfully honest. After all, U.S. companies were still the toast of the business world—the biggest, the richest and, supposedly, the best managed. Everyone said so, including the Japanese and European businessmen who visited the United States to find out how the Americans did it. That aura of invincibility vanished, of course, during the 1970s

■ **How do you rate the job U.S. companies are doing in planning for the future?**

Good 6% Fair 65%
Poor 28% Not sure 1%

■ **Do you believe that American business is too short term-oriented?**

Yes 86% No 13%
Not sure 1%

and 1980s, as hungrier, more resourceful foreign competitors exposed U.S. companies' outdated, inefficient operations, bloated payrolls, management inertia and other weaknesses. Only when the Americans began to be badly outsold in their own backyard by foreign rivals offering cheaper, higher-quality products did they take action.

By now, a decade of corporate restructuring, downsizing and modernization has begun to pay off in rising profits, improved productivity and new technological initiatives. And a number of companies have taken a lesson from their foreign rivals and fought back. Thus, Texas Instruments and Motorola, badly outthrustled by Japanese rivals in one generation of semiconductors, learned how to regain the initiative by leapfrogging to the next generation. And Manville Corporation, realizing that its fiberglass technology was second-rate, swallowed its pride and licensed the foreign technology it needed to compete.

But these and other isolated success stories, the survey makes clear, are not nearly

enough. By and large, corporate leaders simply don't believe that U.S. companies' decade-long struggle to create more competitive operations has been very successful. Indeed, only about half the CEOs whose companies have downsized say that they have increased market share as a result. And only 29 percent believe that takeovers and restructurings have helped the economy.

Why all the pessimism? One reason, and a dangerous and self-destructive one at that, is the pressure on companies to depart from carefully laid long-range plans in order to maximize near-term profits. While many are caught in this trap, most CEOs realize that letting Wall Street and corporate raiders call the tune is a mistake. A full 86 percent of those polled believe that business generally is too short term-oriented, and 40 percent admit that their own companies are.

A good way to tell where CEOs believe their major weaknesses lie is to find out where they plan to spend their time and money in the future. Two-thirds or more

Law

planning
efficiency
quality
R&D
high costs
imports
raiders
suits

of those polled say they will be concentrating over the next two years on three crucial areas to make their companies more competitive: strategic planning, cost control and marketing. Last year, fewer than half of the CEOs put these functions at the top of the list. More than two-fifths plan to pay more attention to quality control, double the number of a year ago.

Their spending plans likewise bear out these concerns. Some 62 percent of the CEOs say they will increase their marketing budgets next year, and about half plan to spend more for new-product development and introductions and to increase expenditures on plant and equipment.

Innovation in products and processes is, of course, critical to American competitiveness abroad, and right now the nation is generally perceived to be lagging behind—especially vis-à-vis Japan. Only 18 percent of the CEOs think U.S. companies are doing a good job in this vital area. And a mere 7 percent believe companies are investing enough money in R&D.

Nearly two-fifths of the CEOs plan big-

ger outlays for R&D over the next couple of years. But the cost of innovation is high, and this is one area where they want Washington's help. Four out of five favor changing the tax laws to provide R&D incentives for companies. More surprising, in light of American companies' well-known aversion to sharing technology, 90 percent want the antitrust laws changed so that companies can form partnerships to work on research and development. And about half of them think the government should funnel more research-and-development money to universities.

If one is to take corporate leaders at their word, then U.S. industry is not as prepared to confront the future as it should be. On the other hand, there seems little doubt that top management is more aware than ever of the nature and complexity of the job ahead—and, more important, of the high cost of failure. As one CEO puts it: "What happens in 10 years depends on what we do right now. We can wreck our companies' future if we don't make the right moves."

ON THE CORPORATION:

■ "American companies do such a lousy job in productivity and customer service."

■ "The management of a company is a complex recipe that has to be adjusted every day, every year."

■ "To us, the quality process means really establishing and meeting customer requirements, analyzing and improving work processes and creating a sustaining, supportive work environment."

■ "The issue is making our manufacturing more efficient. We must compete on a world scale with major industries."

■ "Cost control touches so many things. Employee benefits, wages, taxes can go to hell in a hand basket."

■ "We need people who can conceive an idea, then take it and make it work."

■ "Most companies don't realize how uncompetitive they are internationally. Managers try to use other solutions, like legislation and tariffs, rather than working to improve their products."

■ "We're pushing budgets and plans farther into the future and tying them to R&D to get where we want to be, instead of centering on where we have been."

■ "American companies behave shortsightedly because of what they think the expectations of their investors are."

■ "We have developed a new management responsibility level that handles the day-to-day business. That will allow the senior corporate officers to spend more time looking into the future."

■ "The biggest challenge we face is finding highly educated, totally dedicated managers."

■ "We have changed our executive compensation plan to emphasize long-term results rather than one-year performance."

■ "Bureaucracy is our main problem—short-term bureaucratic thinking."

■ "We have instituted a five-to-10-year operation plan. We now do our resource planning out to 15 years."



THE PEOPLE PLIGHT

As labor shortages threaten growth, companies are giving priority to employee relations.

BY THOMAS J. MURRAY

PITY THE POOR CHIEF executive come Judgment Day. What will he say when asked how well he took care of his employees? From the strike-busting tactics of the 1920s to the massive layoffs of the 1980s, American industry has demonstrated an almost timeless indifference to the concerns and aspirations of the millions of workers passing through its portals. As one chief executive interviewed for the BUSINESS MONTH survey puts it: "Employers have looked at employees as expendable resources for too long."

Yet hope is aborning. In the midst of a fast-changing business environment, a gradual sensitivity to employee needs is creeping into the executive suite. It is too soon to call it a revolution, or even the beginning of one. But cracks in the barriers that have separated the top from the bottom are definitely evident, as American management grapples with problems largely of its own making. Reflecting this changing attitude:

☐ More than half of the CEOs polled—versus less than one-quarter a year ago—list employee relations as one of the major activities they will be spending more time on over the next two years.

☐ More than two-thirds say that employee training and retraining is a pressing issue that requires the immediate attention of business.

☐ Just over 60 percent consider employee loyalty to the company a top-priority problem, and almost as many—57 per-

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■ **How do you rate the job U.S. companies are doing in maintaining employee loyalty?**

Good 7% Fair 51%
Poor 41% Not sure 1%

■ **How does your firm rate in meeting the needs of employees with working spouses?**

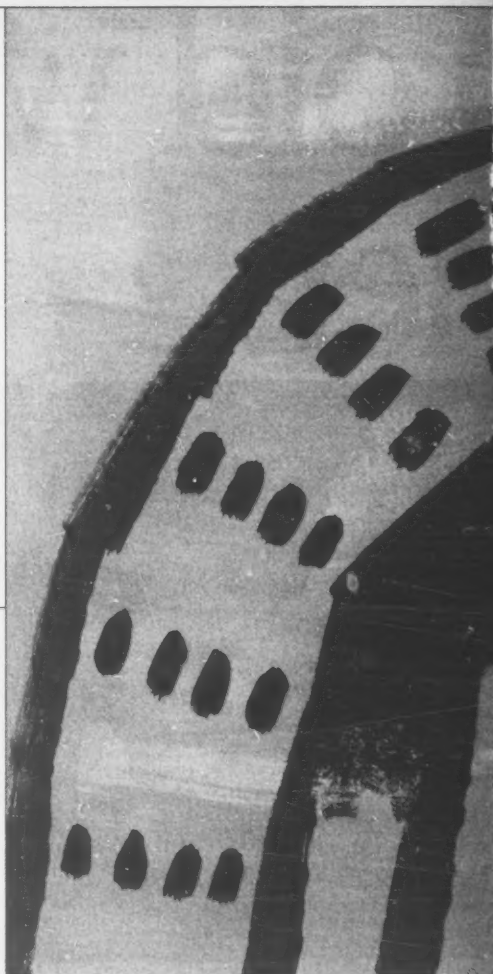
Good 15% Fair 51%
Poor 29% Does not apply 5%

cent—rate company loyalty to employees as a top priority.

Corporate restructurings and the dramatic shift to an information-based economy revealed the serious weaknesses in industry's training and retraining capabilities. As the U.S. manufacturing sector shrank in the early 1980s, and downsizing depleted middle-management ranks, companies were slow to recognize the need to upgrade the job skills of employees. Even now, relatively few companies have programs to tackle the immense challenge.

Clearly, management sees a people crunch ahead. Some 86 percent of the CEOs polled believe the quality of the U.S. work force is a serious threat to business. One says that the shortage of competent people, particularly at the entry level, "is probably our number-one problem."

Complicating the problem, an estimated 13 percent of U.S. job holders are functional or marginally functional illiterates. Although the blame for this disgrace lies primarily with the American school system, business bears the brunt of its effects.



The alienation of the work force has been a major setback for corporate America. Many top managers admit that they forfeited the loyalty of employees by the wholesale layoffs of the past decade, and they now acknowledge that loyalty is a two-way street requiring a long-term rebuilding campaign. Says one CEO: "We have not really developed the idea of a shared fate, that employees and employers are all in this together, and that what's good for the one is good for the other."

Some personnel experts doubt that the old-time trust can ever be restored. As they point out, a new generation entering the job market has no attachment to the cultural values of the white male population that has dominated the workplace. A mixture of blacks, Asians, Hispanics and other minorities will form a majority of the labor pool in the 1990s. These workers bring new and different work habits and expectations, and capturing their loyalty requires a major adjustment by management to allow for their cultural differences in establishing career paths.



That, of course, is not the only change in American society that has affected the workplace. Drug and alcohol abuse remain constant concerns of top management. Some 56 percent of the CEOs polled consider drugs a major problem requiring business' immediate attention; 44 percent list alcohol. The vast majority, 72 percent, have company policies to deal with these problems, but there is growing concern about how far companies can go. For one thing, in recent lawsuits attacking company drug-testing policies as an invasion of privacy, several key court decisions have come down on the side of employees.

AIDS is still not a big issue for management, but 57 percent of the CEOs expect it to become increasingly troublesome over the next few years. About one-third report that their companies have adopted policies toward employees who might have AIDS, versus only 14 percent last year. And more than two-thirds of the CEOs believe that companies should not be able to fire employees simply for having the disease.

One issue that has become a top priority

for business is day care for the children of working mothers. Companies were slow to recognize the strains on the mothers who poured into the work force, but when personnel experts began to talk about such problems as excessive absenteeism and turnover rates, poor morale and lower productivity, they took action. By now companies are offering a variety of services, including on-premise day-care centers, financial assistance for outside child care, paid time off to care for new babies or sick children, and flexible working hours for mothers.

To be sure, CEOs are worried about paying for day-care, drug and alcohol programs, as they are about meeting the mushrooming costs of health care and other employee benefits. In fact, an overwhelming 94 percent of those polled believe that these costs are a serious threat to business. But it looks like a Catch-22 situation. As companies try to control benefit costs, one CEO notes ruefully, they will find it even more difficult to maintain the loyalty of their employees.

ON HUMAN RESOURCES:

■ "We must make employees feel that they are part of the company and that they are striving with the company to generate a profit, produce quality products and keep customers satisfied."

■ "American companies are not seriously concerned with human relations. That is the problem."

■ "There is a tendency in many companies to accept good work as the norm and then criticize the rest. You have to really stroke and reinforce employees for work well done."

■ "There should be better safeguards for the future. P-tired people with fixed incomes are in jeopardy."

■ "Companies have to integrate people into a corporate structure in which they can develop a lifetime career. We have to provide better training and show employees the potential that is available to them in the company."

■ "The urban school systems are not turning out well-educated students. This will hurt us in the future."

■ "Individual action will become increasingly important to business. We must create the structures and mind-set that make us comfortable with employee initiative and discretionary action."

■ "We need the psychic and intellectual, as well as the physical, talent of employees. We must tap their ideas and values and input."

■ "In the benefits area, we are not finding a common ground that meets employee expectations and is also fair to the company."

■ "Companies have to learn to deal with employees who are speaking up for what they feel are their rights—such as better working conditions, relaxed dress codes and flexible work hours."

■ "We are trying to involve more people in strategic management exercises—to extend them to lower-level employees."

■ "Industry must make sure that the universities understand us better and build proper expectations in students. We do a better job with the older work force than with the young."

HOT FOR GLORY

Why slave for stockholders when you can have your own empire for 10 percent down? The answer, as these eager LBO managers learned, isn't always simple.

BY LEAH NATHANS

THE \$17 BILLION BID BY F. Ross Johnson to take RJR Nabisco private brought leveraged buyouts out of the financial pages and onto the front page. But the real effect was to give LBOs overnight respect—as if Ivan Boesky had been awarded the Nobel Prize. Suddenly, CEOs across the country were seriously asking themselves: Would an LBO work for my company?

The appeal of LBOs to most executives is straightforward enough: power, glory and, especially, riches. Consider John Kluge, the chairman of Metromedia, who reportedly made \$3 billion selling off pieces of his company, and investors in Dr Pepper, who cashed out with more than \$600 million in the spring of 1988. Even a small deal, such as the \$60 million buyout of the Bumble Bee Seafoods division of Castle & Cooke scored about \$20 million for Patrick Rose, the head of Bumble Bee, who says with satisfaction, "I never have to worry about money, nor do my children, nor do their children."

There is also the emotional high of actually running one's own company. No more sending financial reports to a prying board of directors who show up four times a year. Instead, the LBO CEO works with a small group of seasoned managers and financial hotshots. Because all of them are owners, all—at least in theory—are motivated to make quick, smart and profitable decisions.

Having started modestly enough in the 1970s as bootstrap financing for small companies, LBOs have quickly grown into

the high-powered deal of choice for the majors. In just the past three years, more than 500 companies went private in leveraged buyouts by management, by outside investors or by a combination of both. In the first nine months of 1988, 143 more LBOs—together worth a staggering \$91 billion—were initiated, up from 92 LBOs worth \$27.9 billion in 1987. An estimated \$300 billion worth of companies now exist in a private LBO economy.

What sort of company is a good candidate for a leveraged buyout? A boring one. Lenders and managers prefer quiet and steady money-makers to exciting and cyclical companies that may have trouble meeting their onerous debt burdens. In fact, most LBOs—75 percent—involve buyouts of corporate divisions that are already doing well.

Certainly, all LBOs are risky. Some managers who lead buyouts find themselves selling or leveraging their houses, not to mention their stock options, to buy stock in their company. So far, few deals have gone broke, as has the buyout of the drugstore chain Revco D.S.—or have stopped repaying bank debt, as Republic Health has. "You can count on the fingers of one hand the number of busted deals," says George Baker, a professor of business administration at Harvard Business School. But the party could end quickly. If a recession in 1989 forces interest rates up and pushes operating income below what is needed to service a company's debt, managers risk losing not only their credibility but their investments and their jobs.

Caught between the attractions and the risks of LBOs, what's an entrepreneurial-leaning CEO to do? He might well take some clues from the following cases.

SWEAT, TERROR AND CANNED TUNA

PATRICK ROSE'S LBO OF Bumble Bee is the kind that gives buyouts a good name and stirs wistful daydreams in the minds of division executives. The hardworking president of the Bumble Bee tuna division at Castle & Cooke took the unit private, quickly turned it into a success as an independent company and then sold it to a conglomerate. Rose and three other manager-owners cashed out of Bumble Bee with a return of \$80 for every \$1 invested.

Bumble Bee was the perfect LBO candidate: a cash machine that had fallen on hard times. The canned-tuna industry may not be exciting, but it generates steady cash flow and needs little capital investment. In a virtual oligopoly, H.J. Heinz's Star-Kist, Ralston Purina's Chicken-of-the-Sea and Bumble Bee control 71 percent of the market. Still, back in 1980 Castle & Cooke, a real-estate developer and consumer-food producer, managed to bungled a sure thing by expanding capacity, buying the largest tuna-boat fleet in the industry and entering into expensive, long-term procurement contracts with tuna-boat operators. With costs up and the industry in a downturn, earnings plummeted. The division posted a loss of \$2.6 million for 1980.

In an effort to turn things around, the company in 1981 hired Rose, then a Van Camp Seafood executive, as president of the division. Under his new management team, Bumble Bee lost \$16.3 million in 1982. But in 1984 Rose's efforts paid off:

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DAVID STRICK/ONYX

The division earned an impressive \$7.3 million in profits. Castle & Cooke's management, though, was in no position to reward progress. Reeling under large net losses from its other businesses, the company had attracted the attention of the raider Irwin Jacobs and had to move fast to defend itself.

It didn't take long for Rose to figure out what management planned to do. While reading a management strategy memo, he noticed that it excluded any reference to the seafood business. The official announcement came in early 1984: To raise some quick cash, Bumble Bee was being put on the auction block. That's when Rose decided to bid for the division, which, he believed from hands-on experience, was a valuable franchise.

Castle & Cooke agreed to let Rose bid for Bumble Bee—if he also helped peddle

the division to outside bidders. A number of competitors and leveraged buyout firms looked over Bumble Bee, but all expressed skepticism when Rose argued that the division was undervalued. "The bidders and Castle & Cooke grossly underestimated the potential of the business," he says.

In the spring of 1985, Jacobs had been bought off with greenmail, and Rose had won management's auction with an offer of \$62.5 million. To structure the deal, Rose approached First Boston, an investment bank that was earning a reputation for its innovative LBO deals. First Boston was impressed. "We saw a management team with an attractive game plan that was excited about the potential," says Arthur Nagle, then co-manager of the firm's LBO department.

In June, the buyout, with backing from the Bank of Boston, finally went through.

It was highly leveraged:

only 5 percent equity—\$3.3 million—and bank debt of \$59.2 million. Bank of Boston put up \$1 million of the equity, First Boston invested \$1.2 million and the four Bumble Bee managers put up an unusually large 40 percent, or \$1 million. For Rose, the transaction was both exhilarating and terrifying. "I was 43 years old and basically putting on the line what I had spent my life trying to accumulate," he says. "An LBO doesn't use a carrot as much as a stick. The incentive is not the pot of gold. It's the negative incentive of not falling into the dark pit." Adding to the pressure was a class-action suit filed by Castle & Cooke shareholders, who charged that Bumble Bee management had paid too little. (The suit was ultimately settled out of court for what Rose calls a modest amount.)

Rose took immediate action to make certain the buyout would work. He saved \$9 million with three simple steps: He declined to buy Bumble Bee's expensive tuna fishing fleet and two unprofitable plants in Hawaii and San Diego. He got out of Castle

& Cooke's expensive, long-term contracts with domestic fishermen (as a new legal entity, the company wasn't bound by previous contracts) and started buying tuna from cheaper Asian sources. And, following an industry trend, he cut the advertising budget in half.

Over the next few months Rose made additional changes. He increased the off-shore cannery staff from 900 to 1,200 workers per shift. He trimmed 30 persons from the corporate payroll, leaving 111 employees. He automated office operations, increasing the number of PCs from three to 100, including a terminal in his office to give him a daily update on inventory. The result was that an office staff 25 percent smaller was soon handling more business than before. "More people were working in the cannery turning raw fish into canned fish, versus crunching paper in the office," says Rose.

To keep the loyalty of both employees and customers, Rose issued stock options to more than 30 managers and launched performance-based incentive plans for others and also stepped up major capital investment in Bumble Bee's cannery in Puerto Rico. Finally, Rose decided to move company headquarters from a dreary structure under a bridge on the San Diego waterfront to a new hilltop office building. "We needed to psychologically make a break from the past and send a signal that the term 'LBO' doesn't mean you don't have any money," explains Rose.

Success was instantaneous. In the first 29 weeks, Bumble Bee made \$6 million. At the end of the fiscal year, Rose was able to pay down \$8.2 million of bank debt to about \$47.1 million, substantially ahead of schedule. Continuing to flourish, Bumble Bee earned more than \$16 million in 1986 and in 1987 moved from the number-three tuna brand to the number-two brand.

BY LAST SPRING ROSE and his management team wondered whether the time wasn't ripe to cash in on Bumble Bee's run-up in value. They had intended all along to sell the company or go public within five years; they hadn't expected that they would be ready to do so in just three. Rose also felt that the company needed a richer owner, one who could afford to expand processing facilities and who would be willing to take more chances. "When you have 99 percent of your net worth tied up in the company, you start getting too careful," he says.

At a board meeting in Puerto Rico last April, Rose and his three managers reached a final decision to sell. There was no shortage of takers. In July Pillsbury agreed to buy the firm, if Rose would

FAST FACTS ABOUT LBOs

First billion-dollar LBO: Wometco Enterprises Inc. in 1984 (\$1.1 billion)

Average premium over stock prices that LBO participants paid in 1988: 39.8 percent

Most successful LBO deal maker in 1985: First Boston, \$36 million in fees

Most successful in 1988: Morgan Stanley, \$62 million in fees

Single largest fee for doing an LBO in 1985: \$11 million, earned by Dillon Read & Company for the Storer Communications deal

Single largest fee in 1988: \$28 million, earned by Kohlberg, Kravis, Roberts & Company for Stop & Shop deal

Number of companies KKR has acquired so far: 35

Number of companies KKR still controls: 23

Pension fund believed to have the biggest investment in LBOs: State of Oregon's, \$500 million

Average percentage of employees who lose their jobs in LBOs: 0 percent (according to a study of 30 recent leveraged buyouts by Steven Kaplan, a University of Chicago finance professor)

Percentage of LBO loans among all bank loans in 1988: 25 percent

Top bank in LBO loans: Citicorp, \$21.5 billion since mid-1987

Bank with the most LBO loans outstanding: Citicorp, \$4 billion

Average ratio of debt to equity in U.S. corporations: 0.65-to-1

Ratio of debt to equity in Revco LBO when the company went bankrupt last summer: 5-to-1

—Compiled by Fred F. Jespersen

1988 figures are for first three quarters only. Data: IDD Information Services and other sources

agree to stay on as chief executive for at least five years. The price was about \$200 million—almost a 500 percent increase over what Rose and his team had paid three years before.

These phenomenal gains resulted not from fancy financial footwork but from good management combined with Rose's inside understanding of the company. Freed from stifling bureaucracy, spurred by debt, Rose and his managers turned Bumble Bee into an efficient and competitive firm. For Rose, it was a revelation. "There was an immense release of creativity and energy," he says.

Rose has mixed feelings about being part of a big corporation again. "I think I've been indelibly changed," he says. "I've grown up in large corporations and seen the waste and carelessness that creeps into the decision process" when executives have no personal stake in the company. "I still feel like I own [Bumble Bee]," he says. "I don't ever want to lose that." That's a feeling Rose may lose faster than he expected. Last October, the British food giant Grand Metropolitan made a hostile bid for Pillsbury. It was a reminder that in business today very little is predictable.

THE HIGH COST OF BLIND AMBITION

BUMBLE BEE WAS THE right LBO at the right time. Sometimes managers aren't so lucky. One deal that was jinxed before the ink was dry was the leveraged buyout of Republic Health, a Dallas-based chain of hospitals and clinics. It was a buyout that shouldn't have happened—doomed by overoptimistic projections of earnings, a misreading of the business climate and blind confidence in management. Serving no economic purpose except to enrich the deal makers, the LBO wound up jeopardizing the company's survival.

None of that was apparent in August 1986 when the \$566 million buyout took Republic Health private. It was an especially big day for James E. Buncher, the chief executive of the company, who had worked on the deal for months. He was held in such high regard at Republic Health that scores of employees gathered to buy a stake in the company.

All were understandably optimistic about the venture. Business had been profitable, thanks in part to insurance company largess and the generous federal bounty of Medicare, but also to good management. Republic Health, formed in 1981, had quickly made a name for itself as a cost cutter and an aggressive and innova-

'THE ORGANIZATION WAS PARALYZED,' SAYS MARSAL. 'ALL IT COULD DO WAS LIVE FROM ONE DAY TO THE NEXT.'



To revive ailing Republic Health, Bryan Marsal halted debt repayment on the LBO.

tive marketer of services. Its rapid growth caught the eye of Dr. Leroy Pesch, a wealthy Chicago health-care magnate. In 1984, he merged Republic Health with his own publicly held company—Health Resources Corporation of America. But Pesch didn't stop there. Intent on building a health-care empire, he sought a vehicle he could control in order to expand more aggressively. Republic Health would give him that vehicle.

In early 1986, with the support of Buncher, Republic's longtime chief executive, Pesch set out to take the company private and discovered that getting financing was remarkably easy. The two hired the investment bank Donaldson, Lufkin & Jenrette, which quickly located a backer, Pacific Asset Holdings, a limited partnership with \$1.2 billion in capital that is headed by Gary Winnick, a former lieutenant of Drexel Burnham Lambert's Michael Milken. Pacific Asset's investors in-

cluded such heavyweight deal makers as Sid Richardson Bass, the Fort Worth investor. Surprisingly, these experienced investors didn't question Buncher and Pesch's rosy forecast that the hospital industry was going to continue growing as it had since the early 1980's.

By August, Buncher and Pesch's efforts had paid off and the deal was completed. Pacific Asset put up \$200 million; Pesch, \$34.3 million; and Donaldson, Lufkin & Jenrette, \$4.3 million. Bank loans accounted for \$265 million. Buncher himself, who had earned \$3.8 million when Republic Health went private, put in \$1.8 million.

In a vote of confidence in Buncher and Republic Health, some 125 employees—from managers to secretaries—committed a total of \$6.2 million to the buyout, with stakes ranging from \$1,000 to \$1.8 million. Most put up cash for 25 percent and signed promissory notes for the rest. They were certain that Republic Health's rapid

rise would continue, especially with Buncher in charge. "The main reason I signed on was because I believed in Jim Buncher," says Ken Teel, a Republic hospital administrator. But the company that had been so promising before was now carrying a total debt of \$430 million. In just the first year Buncher was facing interest payments of \$99 million, though cash flow was only \$84 million. The underlying problem became agonizingly clear in retrospect: Pesch and Buncher had paid too much for Republic Health. The deal had been done when health-care price/earnings multiples were at a peak.

To make matters worse, the patient population was showing signs of declining, and the federal government had just restricted its generous Medicare payments. Instead of continuing to grow in 1987 as expected, the entire industry appeared to be heading into a serious downturn.

To keep the banks—and bankruptcy—at bay, Buncher found he had no choice but to siphon money out of the hospitals' coffers. He cut capital expenditures by 60 percent. Doctors started leaving the hospitals because administrators were postponing the purchase of new equipment. Staff turnover among controllers grew to 80 percent. Vendors delivered medical supplies only by COD because the hospitals were waiting as long as 180 days before paying their bills. Employees stopped traveling on essential business trips because they weren't sure when they would get reimbursement checks.

Buncher was now in the hot seat. The company-wide confidence he had enjoyed earlier began to evaporate. The tension increased. "People who used to be real friendly weren't friendly anymore," says Teel. Finally, in June 1987, under pressure from Pesch, the board hired Drexel Burnham Lambert to assess the state of the company. Drexel brought in Bryan Marsal, a New York turnaround expert, who spent two weeks visiting 20 Republic-owned hospitals across the country. He walked the halls, talking to doctors, nurses, administrators and controllers.

A grim picture emerged. Marsal was shocked to find that a financial quagmire had transformed a healthy company into an invalid. Patient care was in danger of being compromised. "The organization was paralyzed," says Marsal, who is the president of Alvarez & Marsal, a turnaround firm in New York. It was producing a lot of cash, but "all it could do was live from one day to the next."

Meeting with the board, whose seven members included Pesch, Buncher and Pacific Asset, and representatives of Donaldson, Lufkin & Jenrette, Marsal was blunt: The company could not continue to pay the banks and maintain acceptable

hospitals at the same time. "We told the board, 'You will get money out for only three more months, and then you will get no money because you have injured the franchise,'" says Marsal's partner, Antonio C. Alvarez II.

Buncher sought to rebut Marsal's assessment. But galvanized by the searing report, the rest of the board voted Buncher out and installed Marsal as interim chief executive. His first decision was to declare a moratorium on the repayment of bank debt. "It was a gut-wrenching decision to say, months into the LBO, 'By the way folks, I can't pay you,'" Marsal recalls. He channeled the money directly into the hospitals, more than doubling capital spending to \$14.6 million, and hired more controllers, administrators and nurses. He sold unprofitable hospitals. To attract and retain top doctors, Marsal also set up five joint ventures that allowed doctors to become part owners of hospitals and to have some say in managing their facilities. With loss down from \$283 million to \$71 million, the company is slowly getting back on its feet.

Marsal's goal is to complete what he calls "a reversal of the LBO." He has been seeking the creditors' approval of a debt-for-equity exchange offer that would bring the debt level down from \$800 million to \$415 million, about the level before the buyout, and would reduce interest payments from \$91.4 million to \$44 million. Junk-bond holders would assume control of the company and recover their investment only if Republic Health continues to improve. The banks would be paid in full, but in five years instead of 15 months. The big losers would be the holders of the common and preferred stock, whose investment would be virtually wiped out—namely Pesch, Buncher and the 125 Republic Health employees. None of the creditors likes the plan, but because it keeps Republic out of bankruptcy, it faces a good chance of approval.

Though they praise Marsal, the operating managers who invested in the buyout are bitter about losing money and say top Republic management misled them. Especially angry are the managers who are still bound by promissory notes that forbid them to leave the company until they settle up as much as \$200,000 in debt. "I feel like an indentured servant," says one manager who is about \$100,000 in hock.

Others, though, landed more comfortably. Buncher may wind up losing his investment in the buyout, but he will continue to draw an annual salary of \$400,000 until 1991. ("It's a contract I am forced to honor," says Marsal. "What can we do, sue him for bad judgment?") Meanwhile, Buncher has started up a small venture-capital business in Plano, Texas. Gary

Winnick, the head of Pacific Asset, will come out about even. Marsal & Alvarez has earned fees of \$1.7 million so far. Donaldson, Lufkin & Jenrette earned \$1.1 million, and Drexel, \$4.4 million. Perhaps the biggest winners, though, were the stockholders who bailed out of the deal at \$19 a share when the company went private.

REORGANIZING FOR PAIN AND PROFIT

SHAREHOLDERS ARE ALSO the big winners in another kind of LBO, the mega-deals that involve the breakup of healthy companies. Such buyouts are often a way for CEOs to avoid takeovers, stay in control and disassemble their companies themselves rather than wait for raiders to do it. Although it is painful for managers and other employees caught in the middle, such buyouts, by forcing a reappraisal of a company's objectives and operations, can produce a healthier operation.

In 1987 Borg-Warner, facing a takeover threat, was one company that needed the cataclysmic event of an LBO to restructure. It got one through Merrill Lynch Capital Partners, which took the Chicago-based company private that year and, to make certain the buyout succeeded, installed James F. Beré as chief executive. A pillar of the Chicago business establishment, Beré was no stranger to Borg-Warner. He had been its president for 14 years, until he chose semi-retirement in April 1986, though he continued as chairman. In fact, it was Beré's success in building up Borg-Warner to \$3.4 billion in sales that had made it an attractive takeover target in the first place.

During his tenure, Beré had diversified Borg-Warner away from its core business, a venerable automotive division that supplied the big three automakers with most of their brakes and transmissions. He aggressively built a finance company, bought a credit-reporting company to complement it, and entered the security business with the purchase of Baker Industries, which furnished armored-transport services under the Wells Fargo name.

Borg-Warner became an attractive takeover target: a company with little debt trading for less than the value of its unrelated businesses. In late 1986, the raiders Irwin Jacobs and Samuel Heyman notified the Securities and Exchange Commission that they had bought stakes in Borg-Warner; each controlled about 10 percent of the company's stock, worth a total of \$680 million.

Alarmed, Borg-Warner's board of di-

WITH A \$725 MILLION LOAN PAYMENT COMING DUE, BERÉ FELT AS THOUGH 'A HUGE WAVE WOULD ENVELOP ME.'

CEO James Beré felled raiders by presiding over the breakup of Borg-Warner.

rectors hastily decided that its best defense was to take the company private. The directors turned to Merrill Lynch Capital Partners, a \$1.5 billion LBO fund, to structure a deal using loan commitments from commercial banks. The plan was to offer stockholders \$43 a share. But as soon as they recovered from their initial apprehension, the directors had a change of heart. "Their attitude was, we're Borg-Warner, one of the biggest companies in the country, and nothing is going to happen to us," says James J. Burke Jr., head of the Merrill Lynch subsidiary. Burke had a different take on the situation. He was so certain Borg-Warner would need help soon that Merrill Lynch paid the banks \$350,000 in commitment fees to keep the LBO loans warm. Burke was right. In March 1987, Heyman bought Jacobs's shares and made a \$46-a-share hostile tender offer for Borg-Warner. Chastened, the directors rehired Merrill Lynch.

Their waffling was costly. To top Heyman's bid meant putting together a more expensive deal. In May 1987 Merrill Lynch paid \$4.4 billion for the buyout. Banks lent \$3.4 billion, and \$1 billion was later raised in a junk-bond offering. Merrill Lynch put up \$101 million for a 51 percent controlling interest, outside investors contributed \$79 million, and about 82 Borg-Warner managers bought 10 percent—or \$20 million—of the equity. With a bigger deal in place, there would now be no choice but to break up Borg-Warner and use the money to pay down the debt.

Beré, who had acquired a \$5 million equity interest with money from the sale of his Borg-Warner shares, was to preside over the breakup. Returning as CEO meant a considerable adjustment for him. He faced an activist board—six directors, including four Merrill Lynch partners, with a direct stake in Borg-Warner's future. Beré calls the day-to-day shots, but

the board sets strategy. And Beré, who is 65, reports to Burke, who is only 37.

As he took his post in July, one question loomed for Beré: How much could he get for selling the company's divisions? By the end of the year \$725 million was due on the debt that had been incurred, and \$1.8 billion more was due by the end of 1988. He had to move fast. "For the first time," Beré recalls, "I had to operate as if a huge wave would envelop me, even though I was working at my optimum."

Indeed, a wave almost did envelop him—the stock-market crash, an event that nearly sank his company's debt-laden ship. Black Monday endangered the sale of Borg-Warner Acceptance Corporation, the finance subsidiary that Beré had built from scratch and that contributed 20 percent of the company's earnings. Even more serious, the market crash dealt a severe blow to Beré's chances of getting a good price for the West Virginia-based chemical and plastics division, the world's leading producer of the raw plastic used in telephones and computers. The crash knocked the price/earnings multiples of chemical companies from about 20 to a measly 10, cutting in half what Beré had expected to get for the division.

As the market struggled back so did Beré's hopes. By the end of 1987, the sale of Borg-Warner Acceptance Corporation to TransAmerica had been consummated for \$782.5 million. By last June, chemical multiples had recovered, and General Electric had stepped in to buy the chemical and plastics division for the healthy price of \$2.3 billion.

The two sales, together with the sale of an industrial-products division and an Australian subsidiary, more than covered the \$2.5 billion debt payment due at the end of the year. "There was a tremendous release of emotions because we had made the goal," says Beré. "It was a very important milestone."

Meanwhile, Beré was moving quickly to bolster earnings. He slashed the corporate staff from 235 to 120 and trimmed the number of officers from 21 to 11. Among the posts he cut: vice chairman and president. "It's not that we were fat or lazy before," says Patricia Yoxall, the only remaining member of the company's communications office, which had a staff of 14. "We just found out how much we could achieve when we were forced to."

Beré also cut \$3 million from the 1988 research-and-development budget, a decision he defends by arguing that the remaining money is being spent more productively. Instead of funding 10 new areas in the hope that one would pan out, the company has upped its spending by 20 percent in the five most promising areas—including continuous variable transmis-

sions. "We stopped kidding ourselves with things like fuel-injection engines," says Donald C. Trauscht, Borg-Warner's vice president of finance and corporate strategy. "We put more coal in stoking the businesses we were in."

Borg-Warner looks like a different company today from the one Beré ran just a few years ago. But the results, due partly to his management and a strong economy, are impressive. The company, now only in the automotive and security businesses, has sales of \$2.1 billion. By cutting overhead and money-losing operations, Beré has raised earnings by 10 percent. He's brought the debt-to-equity ratio from 22-to-one at the outset of the LBO down to two-to-one.

All in all, the buyout of Borg-Warner was a bittersweet experience for Beré. "It was difficult to know the whole company was up for sale," he says. "These are the seeds you planted 20 years ago and prayed for rain for, the patient work of a whole career that now must meet short-term objectives. We had to adjust emotionally." At the same time, he takes satisfaction in knowing that he has found good homes for the divested divisions, that cash flow is at a healthy level and that inventory management has improved substantially, even if the company stocks fewer items. But he is still no flaming advocate of LBOs. "Time will tell whether they are good," he says.

Béré acknowledges that he learned unexpected lessons. "I thought debt was sinful," he says. "I think I was mistaken. Today, a debt-to-equity ratio of 20 percent is as obsolete as the Model T." He has also become a convert to the motivational magic of ownership. When managers had no stake in Borg-Warner, Beré says, they nodded and smiled in meetings. Now Beré expresses astonishment at how aggressively everyone argues over decisions. "There is no way to genuinely give motivation to people unless they see that through their own efforts they will get a return."

Béré has also learned that patience isn't always rewarded. He once decided not to close a plant until employees near retirement had left. He's now convinced it would have been better to pay them to retire. "I thought I was doing them a favor,"

says. "The problem was, we let time take care of too many things. Our strategy became the ideal model for a raider."

With the divestitures over, Beré's next challenge is to develop a strategy of more targeted growth. In a joint venture, he is establishing an Italian and South Korean automotive business. He has also acquired a domestic engine-component business and is looking for more automotive acquisitions. "We're going to be one of the survivors in the world markets because we've learned to think differently," he says. ■



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By Curtis Bill Pepper

REMAKING THE MATRIX: MULTINATIONALS' NEW LOOK FOR THE '90s

BRAVE NEW BOARDS: HOW DIRECTORS WIELD MORE CLOUT

Luciano Benetton



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FROM THE EDITOR IN CHIEF



THOSE WHO MADE THE LIST

List-making is one of the great sins of journalism, higher on the list of sins than writing about anniversaries as if dates themselves were newsworthy, but lower than treating polls as if they meant something. Yet there are lists and lists. We at BUSINESS MONTH have for a long time taken our annual list of the best-managed companies very seriously. We rummage around in the business stacks month in and month out. We read every morsel we can find on performance and managing techniques. We read annual reports (one of the great sins of corporate life) assiduously, and divide by three. We run the numbers to find out who is in fat city and who is on the street. We bring in experts, big-time men and women, to look over our research and add their own. They do this with care, and then they send their findings back to BUSINESS MONTH. The editors collate the opinions, the facts, the figures, the fugues, and staple together the five winners and the 15 significant other companies of the past twelvemonth.

We did that for 1988, and in December, which seems so long ago, we published the results—our list, we confess—and then we had a lunch to honor the men and women running these fine enterprises.

All of which is a long way around to the point, which is that the winners, in their acceptance speeches that warmish day at the Waldorf, were quite surprisingly moving. They weren't buying the notion of their individual superiority, that they had done it alone.

Katharine Graham of the *Washington Post*, for example, might easily and even reliably have talked about the company's many achievements and profitability. Instead, she talked about her great good fortune in finding talented colleagues to help her when she did not know very much and was frightened by her tasks.

John Sculley of Apple Computer spoke of trying to lead "by helping to be the keeper of the vision." He said that his job was "to get the obstacles out of the way and pick very good people."

David Glass of Wal-Mart and Stanley Gault of Rubbermaid each gave direct and precise credit to the people at their companies, and did so—they all sounded this way—without falling back on mawkishness. All genuine, sincere American Real. People make the companies go 'round, forget the embroidery.

P. Roy Vagelos of Merck rounded the theme off by saying that at his company he expected a lot of intermingling of employees, the chemists and biologists, the manufacturing types, all in together.

Lists, in the main, are not the noblest of journalistic pursuits. But this one came up so strong that the list and the lunch didn't feel sinful at all. Intellectualizing is one thing, but, on reflection, such a fine day could only have been produced by such people.



Graham, Glass, Sculley, Vagelos, Gault

JOHN VAN DOORN

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PERSPECTIVE

Reagan's Legacy In Antitrust

CRITICS SAY THE REAGAN administration was soft on antitrust, and they quote statistics to support their claims: In the past eight years, the Justice Department filed barely 100 civil antitrust suits, versus 205 for 1975 through 1980.

But the truth is that the courts, not the Justice Department or the Federal Trade Commission, changed their stand on traditional antitrust enforcement shortly before Reagan took office. One can cite a number of turning-point cases—the 1974 General Dynamics decision downplaying concentration, the 1977 GTE Sylvania decision requiring actual proof that vertical corporate structures result in price-fixing, the eventual dropping of the Justice Department's famed IBM case after 12 years of fruitless (except to the lawyers themselves) wrangling. Judges all the way up to the Supreme Court have indicated quite clearly that a merger or buyout that makes a company

big and powerful or doubles its market share is no longer automatically considered anti-competitive.

This does not mean that the lawyers in the Justice Department's Antitrust Division have had nothing to do. Far from it. They have brought more antitrust suits than any of their predecessors—close to 900 since 1980. But these have been mostly criminal suits: felony actions lodged against road builders for rigging government bids, against soft-drink bottlers for fixing local prices to supermarkets, against movie distributors, waste haulers, electrical contractors, moving companies, bakeries and auction dealers for sundry schemes to pick consumer and corporate pockets. Many of these suits have been against small and medium-size defendants, but the antitrust cops have also collared the likes of Waste Management, General Cinema and other billion-dollar offenders.

At last count, the Justice Department was pressing 163 different grand jury investigations, as opposed to only 50 when Reagan took over. "The

simple truth is that it has never been riskier and more dangerous to commit an antitrust crime," says Charles F. Rule, head of the antitrust division. But being big and getting bigger aren't necessarily crimes.

—STEPHEN W. QUICKEL

Easy: Just Grab Hold of Compaq

IT IS THE WISE MANAGER indeed who can hook his company to a rapidly rising star. And Finis Conner at Conner Peripherals in San Jose, California, certainly knew a comet when he saw Compaq Computer Corporation. Conner's company, which has been in business for only a year, makes the bulk of the hard-disk drives that go into Compaq's new lap-top computer. And that single supply relationship has propelled the Silicon Valley manufacturing boutique past Compaq's previously held record as the fastest growing American company. Conner racked up \$113 million in 1987, its first year; Compaq had managed only \$111 million in 1983.



If you can't beat 'em, join 'em: Finis Conner did both to Compaq Computer.

Never a model of the introverted, noodling computer inventor, Conner excels at the business end of building high-tech companies from scratch. He has already managed two successful start-ups, Shugart Associates (1973) and Seagate Technology Inc. (1979), both of which he co-founded with the disk-drive designer Alan Shugart. In each case he used the same guiding philosophy: Produce what the market wants, understand the technology so well you can anticipate major shifts, and capture all the major customers within the first two years of your product's life.

With Conner Peripherals, the 44-year-old entrepreneur once again let someone else develop the high-performance technology while he spent his time scrounging up financing. Even though he had a glowing track record, the disk-drive industry was in such bad shape in 1985 that he had trouble interesting even investors who had previously made money with him. One prospect who

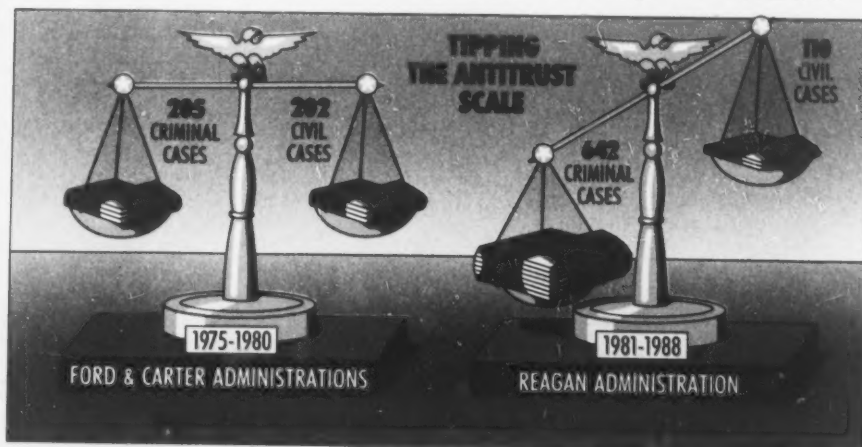


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JOBS MORE PRODUCTIVE



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JWP Inc. has
grown by 179 percent a
year since 1984.

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FROM THE EDITOR IN CHIEF



EAST AND WEST

American companies that do business overseas have historically followed the patterns of comfort and least resistance. Of European roots, their managers looked to Europe to do deals. The United Kingdom was often first, for obvious reasons: language, living conditions, similarity of governmental spirit if not letter, ease of approach and acceptance. Indeed, being first has meant something: Britain has corralled about 30 percent of all U.S. investment in Europe.

But other nations of Europe have been invaded by U.S. business, too: The Netherlands, Ireland, France, Germany, now Spain. Less energetic, except in special categories, was the American drive to the Pacific Rim, which was far away, not well understood, uncomfortably foreign in languages and customs. Then came the Japanese revolution, and U.S. business had to look to the Far East for deals and technology, material and services, labor and know-how to survive. Suddenly, Seoul had substance as a thriving capital. China was not far behind (as the Soviet Union and Eastern bloc were not far behind the European exchanges).

Business should be proud of itself. An argument can be made that this era, starting perhaps in the mid-1970s and stretching until the end of this century, will be known as the one in which American business charged pell-mell over borders, broke down barriers and customs, fueled the end to the cold war, and prompted Europe to take a look at itself—1992 is surely the result.

If the many large and small deals made throughout Europe caused friendly governments to sense that they had better organize into some sort of economic community, then so be it. If capitalism's headway with Kremlin officials had a harmonious influence on Mikhail Gorbachev, and if temperatures are yet permanently raised in the cold war, then so be it. If business continues inexorably to sign papers and make arrangements and go to visit the nations of Asia, so that the world of commerce may enter the period of the Pacific Rim (not, incidentally, quite the certainty it is said popularly to be), then so be it. What U.S. business has helped so mightily to create, it ought forthrightly to continue to encourage. It ought to be bullish about its participation in commerce the world over. These are new adventures, new thinking, new management, new needs, new goals, new strategy, new plans, new people. This is probably what it felt like for our business forebears as they headed out to the wilds of, say, Nebraska. You gotta know the territory. There is every chance that jingoism, as we have known it, is on its last legs.

What's new? For BUSINESS MONTH readers, two things. The type in the magazine is larger, easier to read. And there's a new column, Manager's Diary, inside the back page. First-person stories of how managers do it. Enjoy.

JOHN VAN DOORN

SOME FIGURES

- U.S. investment in European Community nations: \$122.3 billion
- U.S. investment in Japan: \$14.3 billion
- EC investment in United States: \$157.7 billion
- Japanese investment in United States: \$33.4 billion

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BY LEAPS AND BOUNDS

Here are the 200 fastest-growing big companies in the United States, the supergrowers, and they didn't get there by chance. Some names will surprise you.

BY STEPHEN W. QUICKEL

WHEN ANDREW T. Dwyer looks out the window of his brand-new suburban offices in Purchase, New York, his eye is drawn to the sprawling white headquarters of General Foods Corporation looming on the facing hillside. If he finds his neighbor's digs a bit imposing, Dwyer need only remember one thing: It took General Foods three full decades to grow from \$50 million to \$1 billion in sales. His own JWP Inc. has done the same thing in just five years.

Dwyer, 40, runs the fastest-growing big company in America. JWP is a one-of-a-kind enterprise that offers a whole grab bag of computerized, on-premises technical services to other companies—including security and customer-billing systems, complex communications networks and high-tech processing facilities. While ordinary companies lumber along at 5 percent to 20 percent a year, JWP's sales have grown by 179 percent annually compounded for the past five years—to a current rate of about \$1 billion. At that speed, at that size, Dwyer's

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creation is easily the leader among today's supergrowth companies.

JWP's co-leaders, moreover, include none of the usual suspects—the Lotus Developments, Liz Claibornes and Wal-Marts, whose five-year growth rates have now cooled to 30 percent to 50 percent a year. In their stead, three equally unknown companies are barreling along right behind

FORGET THE MYTHS THAT HOT GROWTH MEANS YOUNG, SMALL AND HIGH TECH.

JWP. They are just as big, with sales of \$600 million to \$1 billion, and they are growing by 147 percent to 164 percent a year. They are CVN Companies, a video-shopping outfit; Standard Shares, a family-controlled conglomerate; and J.P. Industries, an improbable collection of Rust Belt manufacturing businesses.

How did these anonymous newcomers, as well as the two dozen other

large companies now growing by 80 percent to 180 percent a year, manage to generate supergrowth? How have they kept it going for five years or more? And most important of all, how are they preparing for that inevitable day when their growth cools off?

In probing these success stories, some myths about supergrowth companies must be exploded. In the popular imagination, for example, only very young companies can come up with the new products and services needed to achieve supergrowth. But a glance down the BUSINESS MONTH rankings destroys that notion. Three of the top eight are less than 15 years old—J.P. Industries, Businessland Inc. and Computer Associates—but the other five are old-timers. The champ, JWP, is really a 99-year-old Long Island utility dressed up for the space age. CVN Companies is a 21-year-old direct-mail merchandiser; Standard Shares is really the Pittway Corporation, a 50.1 percent-owned conglomerate rooted in the 1940s. Itel Corporation has been reborn at age 22 and is again zooming ahead. Dairy Mart Convenience Stores is a 32-year-old retail chain.

What about the notion that big companies can't grow as fast as little ones? That's a myth, too. While Capi-

tal Cities/ABC and Texas Air averaged more than 75 percent annual growth solely through gigantic acquisitions, other large companies are producing 30 percent to 50 percent a year growth without the benefit of a megamerger. That's a good deal speedier than 99 percent of America's small companies are growing.

A third myth is that supergrowth is restricted to companies operating on the high-tech frontiers. However, only 8 of our 25 fastest growers are engaged directly in high-technology fields.

What really limits a firm's growth is the human factor. The hired managers who head most of today's large companies may dream of 50 percent a year in sales gains, but if they triggered it, a majority of them would be overwhelmed. If this seems a harsh assessment, consider how few companies actually achieve that kind of growth. Then note the casualty rate: Of the first 25 in our rankings, seven are currently in the red.

While there are no stereotypes when it comes to fast-track companies, they do share some traits and problems that set them apart.

Supergrowth does not occur by chance. As every CEO knows, the gap between recognizing a new growth opportunity and shaping it into a supergrowth opportunity is wider than the Grand Canyon. But Andrew Dwyer made that leap when he started JWP Inc. on its way to the top of the growth rankings. In 1978, just three years out of Yale and New York University Law School, Dwyer, then 29, was made president of the nearly bankrupt Jamaica Water Properties Company, in which his father was a major investor. The Long Island-based utility was deeply in debt after an ill-conceived attempt to diversify into unregulated businesses. It had a



CVN'S DEIKEL: A MERGER WOULD BRING THE COMPANY STABILITY AND THE PROSPECT OF LONG-TERM GROWTH.

negative net worth and its over-the-counter stock had been delisted from the brokers' pink sheets. By 1982 Dwyer had turned what had become JWP into the most profitable regulated water company in New York state.

That's when supergrowth beckoned, and Dwyer was alert enough to recognize it. "We had developed computerized cost-control, billing and process-monitoring systems," he says, "and we had a lot of expertise on which we could build an unregulated maintenance and service business."

His first step was to sell JWP's expertise in maintaining and monitoring a wide variety of technical support services—such as air-conditioning and security systems and complex communications networks. He soon saw that there was even more money to be made in designing and installing those systems. "It was the one-stop-shopping idea," says Dwyer. "You need a service, we've got it—from designing and installing to operating and maintaining it."

Early on, Dwyer targeted New York's financial-services industry. Flush with cash, Wall Street firms were determined to expand and computerize their trading rooms and back-office operations. And there was JWP,

ready, willing and able to take on the job.

Once established on Wall Street, JWP began extending its services to a client list that would eventually include advertising agencies, broadcast companies, banks, hotels and insurance companies throughout the country. Next, Dwyer expanded services and capabilities—to clean rooms for high-tech manufacturers, purity piping for drug companies and robotics installation for industrial customers. Today, he's taking the company one bold step farther, into waste management, power co-generation and energy conversion. This, he hopes, will keep JWP growing

in the 1990s, by which time its supergrowth in technical services may well have peaked.

Leadership, leadership, and more leadership. Everyone wants to run a supergrowth company, but actually managing one can make an unprepared management long for the days of easygoing 5 percent to 10 percent a year growth. Like a race-car driver, the management of a supergrowth company must keep the gas pedal pressed to the floor but somehow negotiate the tricky curves and avoid crashing into the wall.

Two years ago, Theodore Deikel and Irwin Jacobs, the Minneapolis-based corporate raider, bought control of C.O.M.B. Company, a small direct-marketing and mail-order-merchandise outfit.

One of the company's biggest customers was Home Shopping Network, the video-retailing pioneer. And, seeing an opportunity for growth, Deikel proposed a joint venture or merger. Ultimately, however, Home Shopping Network rejected the proposal.

The key to getting into video retailing was latching onto a large, established subscriber base. The best way to do that, Deikel reasoned, was to try to

team up with the biggest cable operator of them all, Colorado-based Tele-Communications Inc., which has 5.8 million subscribers nationwide. "I called John Malone, TCI's chairman, and learned during our first meeting that they were looking for a way to do it, too, but lacked the merchandising element," Deikel says. Two eager CEOs, sensing a growth opportunity, lost little time in agreeing on a 50-50 joint venture, which they named Cable Value Network.

Within a year, CVN had grown as big as C.O.M.B. and was obviously the wave of Deikel's future. So, during the summer of 1987, he and Jacobs, along with cable operators, engineered a deal to buy full control of the joint venture and change the parent company's name to CVN Companies. Overnight, a \$150 million company became a \$230 million company. One year later, it had mushroomed to \$588 million. That gave CVN a five-year annual growth rate of 164 percent through last August 30th—second-best in the BUSINESS MONTH rankings.

The crucial question became: How does one maintain that kind of growth? TCI's Malone proposed a closer union. He offered \$18 a share late in 1988—a bid he withdrew in January, when the stock rose above \$18. Malone and Deikel insist that their companies remain close, and a merger may yet take place.

For CVN, such a merger would be a smart move. Tele-Communications Inc. is a heavyweight growth company in its own right—ranking 28th on the BUSINESS MONTH list with its own revenues advancing by 80 percent a year. If an acquisition were to go through, Deikel would still head CVN as a largely autonomous supergrowth subsidiary of a supergrowth parent company. And TCI's subscriber base will have been nailed down securely.



BUSINESSLAND'S NORMAN: A BLITZKRIEG WASN'T ENOUGH. TECHNICAL SUPPORT WAS THE ANSWER.

Building critical mass. All supergrowth companies face a final test: How well they have used their spurt of supergrowth to achieve that elusive state of corporate grace that John Psarouthakis of J.P. Industries calls "critical mass." If management builds a strong base, instead of skimming off windfall profits, it may be able to trigger a long-term chain reaction of steady, above-average sales growth. This, in turn, should kick out ample, dependable profits.

Ten years ago, Psarouthakis, an aerospace engineer, decided to strike out on his own. First, he decided, he would acquire durable-goods manufacturing companies that were cheaply priced "because they were underperforming but had important turnaround potential." Then, he would reinforce his early acquisitions with subsequent ones that were closely related and tended to produce vertical integration within each of his product areas. As his stake in a given industry grew, he would diversify his risk and further concentrate his resources by making acquisitions in other segments of that industry.

Psarouthakis' plan worked. Over the space of a decade, he has acquired 17 "underperforming" companies in

three areas—transportation components, builders' hardware and plumbing products.

Psarouthakis' thorough planning and fussy attention to details has brought results that go beyond lightning-fast growth. J.P.'s solid structure has made it an integrated, diversified manufacturing company ready to move on to the next phase of corporate development. Unlike CVN, for example, which boasts a hefty cash flow but nets barely 2 cents on the sales dollar, J.P. Industries has not sacrificed profits to growth. Psarouthakis' company returns a solid 14 percent on shareholders' equity. In short, J.P. Industries

may become a true long-term growth company.

David Norman, founder of Businessland, also started out as an aerospace engineer, at Lockheed. But he was bitten by the entrepreneurial bug in his mid-30s and never recovered. His first start-up was a research-consulting firm, which he left in 1971. His second venture was an information-services company called Dataquest, which was acquired by A.C. Nielsen in 1978. Then, in 1982, with the personal-computer boom under way, he started up his third company—Businessland. His objective: To become the dominant microcomputer reseller, with walk-in retail outlets from coast to coast.

Because Norman was inventing a whole new industry, his plans were vague at the start. What he did know was that he was going to have to move quickly—others were also opening up retail computer centers.

However, instinct warned Norman that a blitzkrieg strategy alone would not succeed. He knew that he would have to offer more than just showrooms full of blinking gadgetry. "We had to be more than a box-mover," is how he puts it.

So, while opening center after

Businessland center, Norman also set up training facilities to instruct his customers' employees. He hired engineers to solve users' problems and render on-premises service at the snap of a customer's fingers. And to keep his own instructors and systems consultants up to date, he set up a large training center at Businessland's headquarters in San Jose, California.

Moreover, Businessland's growth was given an unexpected push when large corporations became major buyers of PCs. Suddenly, a whole new group of customers with bulging pockets was available. Now Norman has bought a retail chain called ComputerCraft, based in Houston, Texas, which specializes in the growing consumer market for home computers.

Fueled by his own creativity and spurred by the exploding PC market,

Norman's company has been steadily approaching critical mass. From nothing in 1982, sales had grown to \$267 million by 1985 and hit \$872 million in the fiscal year ended June 30, 1988. Today, revenues have topped the \$1 billion annual rate.

AQUISITIONS HAVE ALSO played a part in supergrowth. With his opportunities opening up so fast, JWP's Dwyer decided that it was quicker and more reliable to buy trained talent and existing technical capabilities than create and train his own from scratch. So, from its earliest stages, JWP has relied heavily on small acquisitions. "We've found that you can only handle about 25 percent more business annually with an existing or-

ganization," says Dwyer. "To grow beyond that, you have to go outside for talent and facilities."

The more common use of acquisitions, of course, is to generate added growth in large chunks. But under the conditions of supercharged growth, when management is struggling to keep a company under control, acquisitions can be more difficult than ever to pull off—and all the more so for an up-and-coming company such as Dairy Mart Convenience Stores, which doesn't have much experience in making acquisitions.

By the early 1970s, Dairy Mart's founder, Charles Nirenberg, had built an empire of 37 New England convenience stores. In 1972, Giant Stores made him an offer he couldn't refuse: stock then worth \$2 million. But within six months Giant had gone broke

SOMETIMES IT PAYS TO BE MODERATE

How can companies that are doubling and tripling every year or two possibly fail to make money? Easy. They overrun their markets. They borrow too much. They make bad acquisitions. In fact, supergrowers are more prone to serious accidents—for all the flood of revenues they reap—than are more cautious companies.

Maxicare, a big health maintenance organization based in Los Angeles, has expanded at a forced-draft pace. Like many a loss-plagued HMO—the whole industry ran about \$3 billion in the red last year—Maxicare is a pure case of overexpansion. Revenues leaped fifteenfold in five years, to \$1.8 billion, but headed into the red in 1987 as bad acquisitions and rising medical-care costs caught up with it. Now, amid forced divestitures and the loss of fearful subscribers, the squeeze is on. Near-term survival depends on debtholders' willingness to swap for a debt-equity package that lightens the strain on Maxicare's cash flow.

The jig may soon be up, too, for Frank Lorenzo. Airlines are always tricky to run, but Lorenzo, bogged

down with both Eastern and Continental, has become mired in a struggle with the unions. Its preferred dividends now suspended, Texas Air capped its four-year flight from \$1.3 billion to \$8.5 billion in revenues through last September 30th with a \$760 million 12-month loss. Another year like that will wipe out Lorenzo's stockholders' equity.

Genentech and Seagate Technology—two overhyped darlings of the late bull market's last surge in 1986-87, are also in trouble. Genentech's blood-clot-dissolving wonder drug, TPA, costs \$2,200 a shot, but Hoechst-Roussel's Streptokinase performed nearly as well at just \$186. As doctors balked at using TPA, Genentech was accused of strong-arming druggists by threatening to help cardiac patients sue them for not stocking a lifesaving drug. With the stock down from \$65 to \$15, Genentech's CEO, Robert Swanson, took an inventory write-off that plunged the company into the red in 1988, despite a 45 percent jump in revenues. This year will be a crucial one for Swanson, who has decided to keep on pushing TPA but has also formed marketing alliances with Japanese drugmakers.

Seagate, which two years ago

claimed 70 percent of the market for 5 1/4-inch disk drives, was caught napping when 3 1/2-inch disks came along—and competitors began gobbling up disk-drive market share. Chairman Alan Shugart, a Silicon Valley veteran, was apparently preoccupied with setting up lower-cost production of 5 1/4-inch drives in Singapore and Thailand. Seagate is still in the black, but earnings for the fiscal year ended last June 30th skidded from \$140 million to \$77 million, even as sales rose above \$1.25 billion. And the stock is down from its 1987 peak of \$45 to around \$10.

Southmark, a Dallas financial-services conglomerate, expanded high, wide and handsome—but now has stumbled amid the Texas real-estate and thrift depression. Additional loss reserves threw the company \$138 million into the red last year, and management conceded as 1988 ended that it lacked the cash flow to meet 1989 debt-service and operating needs. With its two founders forced to resign, a painful retrenchment is under way.

So 100 percent-a-year growth isn't everything. Just as a car traveling at 70 miles per hour crashes harder than one moseying along at 35, so it is in the fast lane of corporate growth. —S.W.Q.

and Nirenberg's hard-earned fortune was gone, too.

Scraping together \$250,000, he bought back what was left of his company and began rebuilding it. "My objective then was to grow to 100 stores," he says. "But when we had 100 stores in the early '80s, I said, 'Let's go for 500.'"

That plunged Nirenberg into the acquisition game. In 1985, he acquired the Lawson Company and in 1986, CONNA Corporation stores in New England and the Midwest. They helped to accelerate his sales growth to 141 percent a year for the past five years, but they also brought Nirenberg some unexpected headaches. In both cases, low-profit stores had to be discarded and cost controls had to be tightened. During 1987 and 1988, this put a strain on Nirenberg's management resources and Dairy Mart's already razor-thin retailing profit margins. But his company is emerging stronger from both trials. It has strengthened its management ranks and bolstered the profits of the acquired stores.

Chicago-based Itel Corporation has also relied heavily on acquisitions. Touted as a red-hot growth company in the late 1970s, Itel eagerly piled debt on top of debt in an attempt to dominate the railcar- and container-leasing business. But when corporate borrowing rates soared above 20 percent in 1979, Itel was in deep trouble. Overloaded with debt, it declared bankruptcy in 1981.

Now Itel has been reborn. Rod Dammeyer, the company's chief executive officer, reignited growth largely through acquisitions. He started off by acquiring Great Lakes International, the biggest U.S. dredging company, and Anixter, one of the largest wire and cable distributors. His 1987 purchase of Flexi-Van brought Itel's container-leasing business back into the big time. But Itel's most dramatic



**DAIRY MART'S NIRENBERG: ACQUISITIONS
BROUGHT HIM HEADACHES, BUT MANAGEMENT
HAS EMERGED STRONGER.**

moves were its purchases of Signal Capital Holdings and large stock positions in Santa Fe Southern Pacific and American President Companies from the Henley Group last September. These moves doubled Itel's railcar-leasing fleet and fueled growth of 140 percent a year.

Although the purchases added roughly \$1 billion to Itel's heavy long-term debt—\$2.3 billion, about four times shareholders' equity—Dammeyer says that he had to move quickly when the properties became available. And, he says, they will add considerably to Itel's cash flow almost immediately. The point is well taken: Itel now has the market dominance in equipment leasing that it did not enjoy the first time around, which does indeed augur well for its cash flow. And there is another crucial difference: Interest rates are not likely to hit 20 percent again.

Big acquisitions aren't the only answer to sustaining supergrowth. For Computer Associates International, the answer was what its founder, Charles B. Wang, calls "product leveraging," which means simply that he introduces his new products in a sequence that builds upon the bases established by his older ones. Wang cites

as a recent example Computer Associates' new graphic-reporting software, which was obtained in an acquisition. The software can be applied to a number of the company's existing packages to strengthen sales across the board.

Wang describes his company as marketing driven instead of technology driven. "In software," he says, "the key is how well it works, not who made it. If we were lacking some technology, we didn't wait to develop it ourselves. We went out and bought it so we could keep our product line on the cutting edge."

The big trouble with supergrowth is that it cannot last. For all the brilliant strategies and crucial decisions, the stark truth is that the ability to double sales every year or two is a strictly temporary phenomenon.

The trick is to attain critical mass by establishing a dominant market share that will sustain steady long-term growth at a slower, but more profitable and dependable, rate.

Many of our listed companies have attained such an enviable state. John Psarouthakis feels J.P. Industries has. And he believes the company can now slow down. With Itel's debt ratio at four-to-one, Rod Dammeyer probably has little choice but to slow down and let his newly acquired businesses do the growing.

By now, both Businessland's David Norman and Computer Associates' Charles Wang have probably achieved critical mass, too. But neither talks of slowing the pace, primarily because both are in an industry that is still growing rapidly. Charles Nirenberg at Dairy Mart now talks about expanding to 2,000 stores. And don't look for either JWP's Andrew Dwyer or CVN's Theodore Deikel to slow down, either.

Are they foolishly resisting the inevitable? Time will tell. ■

THE HOT 200

These are America's fastest-growing large public companies, based on average annual sales gains during the five years that ended September 30, 1988 (except where noted). To qualify for the list, companies needed revenues of at least \$50 million at the start of the measured period.

	Company	Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
1	JWP Purchase, NY Designs and installs technical systems in offices	178.6%	\$800.3	\$80.6	\$25.9	\$3.2
2	CVN COMPANIES Minneapolis, MN ¹ Operates at-home-shopping cable TV network	164.3	587.7	63.8	11.4	2.1
3	STANDARD SHARES Northbrook, IL ² Owns Pittway, maker of alarms and aerosol products	160.8	743.3	82.2	17.3	16.5
4	J.P. INDUSTRIES Ann Arbor, MI Makes plumbing products, auto and truck parts	143.8	527.0	64.3	17.5	3.9
5	BUSINESSLAND San Jose, CA Sells microcomputers	141.6	963.1	119.3	22.7	-5.8
6	DAIRY MART CONVENIENCE STORES Enfield, CT ⁴ Sells milk products	140.8	561.8	69.9	4.5	1.3
7	ITEL San Francisco, CA Leases railroad cars and cargo containers	140.4	1,534.2	191.3	31.0	-7.7
8	COMPUTER ASSOCIATES INTERNATIONAL Garden City, NY Designs and markets computer software	136.9	810.9	103.4	122.5	19.7
9	MAXICARE HEALTH PLANS Los Angeles, CA Owns and operates HMOs	133.1	1,862.3	243.3	-314.8	7.6
10	SUDBURY Cleveland, OH ² Makes industrial components and lubricants	132.9	569.2	74.4	9.0	1.0
11	LOREN INDUSTRIES Hollywood, FL Makes jewelry	131.0	598.6	79.3	1.8	.1
12	AMERICA WEST AIRLINES Tempe, AZ Owns and operates airline	128.8	798.0	97.9	-33.6	-15.9
13	TEXAS AIR Houston, TX Controls Eastern and Continental airlines	126.2	8,465.2	1,157.9	-759.9	-35.3
14	DART GROUP Landover, MD ² Sells auto parts, owns bookstores	121.4	449.1	63.5	-54.1	2.7
15	TONKA Minnetonka, MN Makes toys	121.3	842.8	119.3	-26.3	-1.5
16	COMPAQ COMPUTER Houston, TX Makes personal computers	116.3	1,830.0	268.6	212.3	9.2
17	WESTERN DIGITAL Irvine, CA Designs and makes computer hard drives	113.8	875.2	130.9	43.8	8.0
18	GETTY PETROLEUM Jericho, NY ² Sells petroleum products	111.5	1,190.1	181.0	24.8	2.3
19	MICROPOLIS Chatsworth, CA Makes disk drives for computers	108.8	333.6	51.8	22.6	3.3
20	SOUTHBARK Dallas, TX Purchases and manages real estate	104.8	3,055.5	489.7	-184.6	58.4
21	SHOWBOAT Las Vegas, NV Owns and operates casino hotels	91.9	284.7	50.9	-5.3	6.5
22	CAPITAL CITIES/ABC New York, NY Owns and operates radio and TV networks	88.8	4,866.0	894.4	363.9	131.8
23	GENENTECH San Francisco, CA Produces biotech products	88.3	329.2	60.8	64.4	2.3
24	AST RESEARCH Irvine, CA Makes personal computers and software	87.4	442.5	82.4	15.3	7.0
25	CANNON GROUP Los Angeles, CA Produces movies	81.3	406.1	80.2	-60.8	9.5
26	CONTINENTAL INFORMATION SYSTEMS Syracuse, NY ³ Leases computers and other equipment	80.8	727.7	144.4	.1	5.4
27	M.A. HANNA Cleveland, OH Produces polymers, mines coal and iron	80.7	997.0	198.0	79.9	5.2

¹Figures as of 6/30/84 and 6/30/88. ²Figures as of 7/31/84 and 7/31/88. ³Figures as of 8/31/84 and 8/31/88. ⁴Figures as of 10/31/84 and 10/31/88

	Company	Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
28	TELE-COMMUNICATIONS Denver, CO Operates cable TV system	79.5	2,133.5	429.1	-8	18.6
29	KINDER-CARE Montgomery, AL Provides day-care services	75.6	715.5	149.7	35.1	16.1
30	MICRO D Santa Ana, CA Distributes computer software and peripherals	75.3	488.2	102.5	7.1	1.8
31	MINISCRIBE Longmont, CO Designs and makes computer disk drives	75.1	602.8	126.7	44.4	2.5
32	LSI LOGIC Milpitas, CA Designs and makes integrated circuits	73.5	337.8	72.2	24.6	15.3
33	THE HOME DEPOT Atlanta, GA ⁴ Operates home-improvement centers	72.9	1,848.7	397.9	73.8	13.8
34	TELERATE New York, NY Provides financial information	69.3	423.5	94.9	93.9	27.1
35	ASHTON-TATE Torrance, CA ⁴ Produces personal-computer software	66.1	295.5	68.7	47.1	5.1
36	JACOBS ENGINEERING GROUP Pasadena, CA Provides construction and management services	65.2	757.4	177.8	6.6	-11.6
37	J.B. HUNT TRANSPORT SERVICES Lowell, AR Trucking firm	63.9	370.5	88.3	29.3	13.2
38	OMNICOM GROUP New York, NY Controls group of ad agencies	63.0	881.7	212.5	38.7	7.3
39	COMCAST Bala-Cynwyd, PA Operates cable TV system	62.7	411.7	99.5	-19.7	11.0
40	U S HEALTHCARE Blue Bell, PA Owns and operates HMOs	62.6	689.5	166.9	8.7	8.0
41	SAFEGUARD SCIENTIFICS King of Prussia, PA Provides financing to small high-tech firms	59.3	231.4	58.4	10.9	.4
42	SEAGATE TECHNOLOGY Scotts Valley, CA Designs and makes computer disk drives	58.1	1,343.1	343.9	9.7	29.5
43	VIACOM New York, NY Produces and distributes TV programs	56.9	1,168.9	304.0	-150.0	35.6
44	UNIVERSAL Richmond, VA Imports and exports leaf tobacco	56.5	2,566.8	671.5	61.2	37.9
45	INTERNATIONAL LEASE FINANCE Beverly Hills, CA ³ Leases aircraft to airlines	55.6	203.4	53.8	54.7	14.8
46	DIGITAL COMMUNICATIONS ASSOCIATES Alpharetta, GA Makes computer-networking products	55.5	229.0	60.7	40.4	8.0
47	APOLLO COMPUTER Chelmsford, MA Designs and makes technical workstations	55.4	632.5	167.8	9.4	19.2
48	COOPER COMPANIES Menlo Park, CO ³ Makes ophthalmology and optometry products	55.2	918.9	244.4	-98.7	24.6
49	PRECISION CASTPARTS Portland, OR Makes investment castings for aerospace industry	54.7	430.8	115.4	34.5	6.1
50	INACOMP COMPUTER CENTERS Troy, MI ⁴ Sells personal computers	53.6	267.3	72.6	4.8	.7
51	BAXTER INTERNATIONAL Deerfield, IL Produces hospital supplies	53.5	6,683.0	1,817.4	357.0	180.8
52	OHIO MATTRESS Cleveland, OH ³ Makes mattresses and boxsprings	53.5	651.3	177.2	30.6	10.9
53	CIRCUIT CITY STORES Richmond, VA ³ Sells consumer electronics	53.1	1,538.5	421.2	58.3	15.8
54	LOTUS DEVELOPMENT Cambridge, MA Makes personal-computer software	52.3	471.8	130.5	72.9	31.0
55	M.D.C. HOLDINGS Denver, CO Builds homes and develops real estate	51.3	750.5	210.6	-13.6	15.2
56	GRAPHIC INDUSTRIES Atlanta, GA ³ Provides commercial printing	51.2	241.5	67.8	8.8	2.8
57	PRICE San Diego, CA ³ Sells food and other goods through warehouse outlets	51.2	4,119.6	1,157.8	94.8	28.6
58	VISUAL GRAPHICS Tamarac, FL Sells and leases graphic-arts equipment	49.9	175.1	50.1	2.6	1.1
59	MICRON TECHNOLOGY Boise, ID ³ Makes computer memory chips	48.8	300.5	87.4	98.0	29.0
60	NEWELL Freeport, IL Makes cookware and housewares	48.4	994.6	290.8	53.7	13.5
61	KAUFMAN and BROAD Los Angeles, CA ³ Builds houses and provides insurance	47.9	2,003.5	590.5	53.3	25.3
62	INSTRUMENT SYSTEMS Jericho, NY ¹ Makes home furnishings	47.2	379.3	112.9	5.8	3.8
63	USAIR GROUP Arlington, VA Controls USAIR	46.7	5,349.8	1,603.1	168.9	123.2

¹Figures as of 6/30/84 and 6/30/88 ²Figures as of 7/31/84 and 7/31/88 ³Figures as of 8/31/84 and 8/31/88 ⁴Figures as of 10/31/84 and 10/31/88

	Company	Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
64	MARION LABORATORIES Kansas City, MO Manufactures pharmaceuticals	45.8	787.2	239.4	163.2	26.6
65	ILLINOIS TOOL WORKS Chicago, IL Makes fasteners, switches and industrial machinery	45.7	1,881.4	573.1	131.1	56.0
66	VISHAY INTERTECHNOLOGY Malvern, PA Makes high precision resistors	45.3	169.3	51.9	16.4	6.5
67	WAL-MART STORES Bentonville, AR ⁴ Owns and operates discount retail stores	45.1	19,118.5	5,873.5	761.2	246.0
68	INTERFACE La Grange, GA Manufactures carpet tiles	44.7	321.6	99.4	18.4	4.9
69	LIZ CLAIBORNE New York, NY Designs and manufactures apparel	44.7	1,132.4	350.3	106.2	37.5
70	WAXMAN INDUSTRIES Bedford Heights, OH Distributes plumbing and hardware products	44.6	167.6	51.9	6.9	1.5
71	BANNER INDUSTRIES Cleveland, OH Distributes aircraft parts and tires	44.3	380.0	118.2	34.6	2.4
72	VLSI TECHNOLOGY San Jose, CA Designs and makes integrated circuits	44.2	203.3	63.3	6.1	5.5
73	MEDIQ Pennsauken, NJ ¹ Leases medical equipment	44.0	258.4	80.8	8.2	5.9
74	CHEROKEE GROUP Sunland, CA ³ Designs and makes women's apparel	43.6	163.7	51.5	12.3	1.9
75	LORAL New York, NY Designs and makes military electronics	42.5	1,488.6	476.4	82.0	38.2
76	THE DRESS BARN Stamford, CT ⁴ Discount specialty retailer	42.2	215.4	69.2	16.8	3.2
77	HARNISCHFEGGER INDUSTRIES Brookfield, WI ³ Manufactures papermaking equipment	42.1	1,172.8	377.7	25.9	3.2
78	WILLIAMS-SONOMA San Francisco, CA ⁴ Sells specialty cookware	41.6	158.3	51.4	3.2	-1
79	KEYSTONE INTERNATIONAL Houston, TX Makes industrial flow-control products	41.6	331.9	107.9	2.7	15.1
80	THE LIMITED Columbus, OH ⁴ Sells specialty apparel	41.0	3,725.4	1,221.7	188.3	83.2
81	PHH GROUP Hunt Valley, MD ⁴ Provides relocation services	40.9	1,736.4	570.3	19.6	38.3
82	STONE CONTAINER Chicago, IL Produces paper products	40.4	3,670.9	1,216.4	290.6	20.4
83	NEUTROGENA Los Angeles, CA ³ Makes skin- and hair-care products	39.7	168.2	56.4	21.0	4.5
84	PANSOPHIC SYSTEMS Lisler, IL ⁴ Makes computer software	39.6	179.6	60.3	18.1	9.8
85	ROLLINS ENVIRONMENTAL SERVICES Wilmington, DE Provides industrial chemical-waste treatment	39.5	206.3	69.4	33.3	6.5
86	ANACOMP Indianapolis, IN ¹ Provides computer output microfilm services	39.2	411.0	138.9	31.8	-87.8
87	LAMSON & SESSIONS Beachwood, OH Makes thermoplastic electrical conduits	39.0	386.8	131.2	24.0	-9.8
88	MIDWAY AIRLINES Chicago, IL Owns and operates airline	38.8	403.8	137.2	6.8	-15.3
89	MAYTAG Newton, IA Manufactures appliances	38.8	1,855.3	631.5	132.9	62.8
90	ARTRA GROUP Northfield, IL Makes scientific instruments	38.3	176.1	60.4	-6.9	1
91	AMES DEPARTMENT STORES Rocky Hill, CT ⁴ Owns and operates discount retail stores	38.2	2,181.7	750.2	41.3	25.5
92	TURNER BROADCASTING SYSTEM Atlanta, GA Cable TV broadcaster	37.7	774.9	268.6	-103.7	1.1
93	HAL Honolulu, HI Controls Hawaiian Airlines	36.9	343.6	120.7	-9.8	2.1
94	UTILICORP UNITED Kansas City, MO Electric and gas utility	36.8	662.6	233.3	39.5	25.6
95	LSB INDUSTRIES Oklahoma City, OK Produces air conditioning and heating systems	36.7	195.0	68.8	-4	-5.9
96	COMPUTER TASK GROUP Buffalo, NY Designs and programs computer-software systems	36.1	207.5	74.0	6.2	1.8
97	VALSPAR Minneapolis, MN ³ Manufactures paint	36.1	484.3	172.6	19.0	11.0
98	PRIME MOTOR INNS Fairfield, NJ Builds and operates motel's	36.1	383.4	136.8	71.4	18.5
99	INSTEEL INDUSTRIES Mount Airy, NC Manufactures wire and wire products	35.8	195.6	70.1	6.0	2.4

	Company	Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
100	WASTE MANAGEMENT Oak Brook, IL Operates solid-waste disposal systems	35.8	3,352.0	1,201.3	427.8	132.3
101	EXCEL INDUSTRIES Elkhart, IN Makes window assemblies for trucks and buses	35.7	237.8	85.4	6.6	4.1
102	BOLT BERANEK & NEWMAN Cambridge, MA Designs and produces communication products	34.4	304.8	112.1	16.4	6.7
103	TELXON Akron, OH Produces data-gathering equipment	34.3	141.6	52.2	14.5	4.6
104	EMERSON RADIO North Bergen, NJ Manufactures consumer electronics	34.3	704.7	259.8	2.4	9.7
105	AGENCY RENT-A-CAR Solon, OH ² Auto rental firm	34.2	199.0	73.5	23.5	10.0
106	NORTEK Providence, RI Makes heating and cooling systems for buildings	34.1	1,360.0	502.8	1.5	15.7
107	SEAGULL ENERGY Houston, TX Operates pipeline to transport gas and liquids	34.0	151.8	56.3	3.1	5.1
108	DICEON ELECTRONICS Irvine, CA Designs and makes multilayer circuit boards	33.8	140.7	52.3	9.9	6.0
109	APPLE COMPUTER Cupertino, CA Makes personal computers	33.7	4,071.4	1,515.9	400.3	64.1
110	ALCO HEALTH SERVICES Valley Forge, PA Distributes pharmaceuticals	33.7	2,057.4	766.7	20.2	10.4
111	POLICY MANAGEMENT SYSTEMS Columbia, SC Provides software systems to insurance companies	32.7	208.3	79.1	19.6	12.8
112	BRUNO'S Birmingham, AL Operates supermarket chains	32.5	1,977.9	754.1	42.9	20.0
113	AUDIO/VIDEO AFFILIATES Dayton, OH ² Sells consumer electronics	31.9	207.8	80.1	2.8	3.0
114	TJ INTERNATIONAL Boise, ID Manufactures building materials	31.8	304.6	117.7	17.1	7.5
115	FEDERAL EXPRESS Memphis, TN ³ Ships packages	31.7	4,051.9	1,568.1	183.6	95.6
116	TYSON FOODS Springdale, AR Produces poultry products	31.6	1,936.0	750.1	81.4	18.2
117	ULTIMATE East Hanover, NJ ² Designs and makes computer hardware and software	31.4	209.5	81.6	8.1	12.0
118	FOOD LION Salisbury, NC Owns and operates supermarket chain	31.4	3,522.0	1,371.1	106.4	34.2
119	SUNRISE MEDICAL Torrance, CA Designs and makes health-care products	31.3	141.9	55.4	3.0	1.5
120	VALMONT INDUSTRIES Valley, NE Makes steel tubing for industrial uses	31.2	611.4	239.1	12.6	7.0
121	SERVICE CORPORATION INTERNATIONAL Houston, TX ² Operates funeral homes and cemeteries	31.1	551.1	215.6	63.8	30.5
122	MINNETONKA Bloomington, MN Makes personal-fragrance products	30.8	194.4	76.5	12.7	9
123	MCI COMMUNICATIONS Washington, DC Operates telecommunications network	30.8	4,744.0	1,867.9	265.0	89.6
124	ORION PICTURES New York, NY ³ Produces and distributes films	30.2	449.4	179.2	10.0	4.1
125	FLUOROCARBON Laguna Niguel, CA ⁴ Produces plastic and rubber components	30.1	235.2	93.9	9.4	4.3
126	REGAL-BELOIT South Beloit, IL Makes industrial cutting tools	30.0	141.7	56.7	10.7	4.2
127	TYCO LABORATORIES Exeter, NH ³ Makes fire-protection systems, pipes and valves	29.6	1,702.4	686.3	74.7	34.5
128	HECHINGER Landover, MD ⁴ Makes building materials	29.5	945.0	381.6	46.7	19.9
129	ARTHUR J. GALLAGHER Rolling Meadows, IL Insurance brokerage	29.4	137.9	55.8	16.1	5.4
130	COCA-COLA BOTTLING Charlotte, NC Soft-drink bottler	29.4	326.6	132.2	-3.3	7.5
131	TANDEM COMPUTERS Cupertino, CA Makes fault-tolerant computer systems	29.4	1,314.7	532.6	94.5	42.9
132	CINTAS Cincinnati, OH ³ Makes, leases and sells uniforms	29.3	215.6	87.5	18.1	7.8
133	OLSTEN Westbury, NY Provides temporary personnel services	29.3	492.9	200.2	16.3	5.5
134	CHARMING SHOPPES Bensalem, PA ⁴ Sells women's apparel	29.2	686.6	279.2	28.7	19.9
135	CARDINAL DISTRIBUTION Dublin, OH Distributes food and health and beauty aids	29.0	603.9	246.5	6.5	2.9

¹Figures as of 6/30/84 and 6/30/88 ²Figures as of 7/31/84 and 7/31/88 ³Figures as of 8/31/84 and 8/31/88 ⁴Figures as of 10/31/84 and 10/31/88

	Company	Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
136	CRAY RESEARCH Minneapolis, MN Makes supercomputers	29.0	589.0	240.6	102.2	48.7
137	NATIONAL EDUCATION Irvine, CA Provides technical training services	28.9	412.2	168.5	17.1	11.7
138	CONAGRA Omaha, NE ³ Processes food	28.8	9,827.7	4,025.6	163.6	71.5
139	HASBRO Pawtucket, RI Makes toys	28.8	1,341.4	549.6	58.1	43.6
140	NORDSTROM Seattle, WA ⁴ Sells specialty apparel and footwear	28.6	2,164.0	890.3	109.1	37.2
141	NU-MED Encino, CA ³ Owns and operates hospitals	28.6	313.4	129.0	-20.1	6.0
142	OWENS & MINOR Richmond, VA Wholesales medical supplies	28.5	698.2	287.8	8.3	3.4
143	MAY DEPARTMENT STORES St. Louis, MO ⁴ Owns and operates department stores	28.5	11,060.0	4,564.9	457.0	204.5
144	STONERIDGE RESOURCES Bloomfield Hills, MI ³ Processes citrus fruit	28.4	140.1	7.9	-4.4	2.3
145	BIO-RAD LABORATORIES Hercules, CA Makes research and diagnostic products	28.4	189.7	78.5	9.2	-6
146	PLY-GEM INDUSTRIES New York, NY Makes wood and wall paneling	28.1	374.1	155.6	10.7	4.1
147	COMDISCO Rosemont, IL Leases and sells computers	29.0	1,287.0	536.6	92.0	29.7
148	LA PETITE ACADEMY Kansas City, MO Operates day-care centers	27.7	147.9	62.1	9.2	3.4
149	FIELDCREST CANNON Eden, NC Makes towels and bedding materials	27.6	1,354.8	569.7	-3.3	11.5
150	PHILIP MORRIS New York, NY Produces tobacco, beer and food products	27.5	23,821.0	10,024.6	2,246.0	995.4
151	PHELPS DODGE Phoenix, AZ Mines copper	27.0	2,139.7	910.0	365.9	-106.3
152	CLAYTON HOMES Knoxville, TN Makes, sells and finances houses	26.9	214.2	91.4	14.5	5.8
153	ALASKA AIR GROUP Seattle, WA Controls Alaska Airlines	26.9	793.0	338.6	32.0	19.3
154	LENNAR Miami, FL ³ Constructs houses	26.8	356.3	152.4	25.4	7.4
155	TELESPHERE INTERNATIONAL Oak Brook, IL Provides long-distance telephone service	26.7	134.3	57.5	.9	-4.8
156	BRUNSWICK Skokie, IL Manufactures boats and marine engines	26.7	3,328.4	1,424.7	209.9	90.4
157	SOUTHEASTERN MICHIGAN GAS ENTERPRISES Port Huron, MI Co-generates power and distributes natural gas	26.7	206.2	88.3	7.1	3.7
158	TOYS 'R' US Rochelle Park, NJ ⁴ Sells toys	26.7	3,656.6	1,566.2	225.8	105.3
159	PRIME COMPUTER Natick, MA Designs computers and software	26.5	1,430.4	614.9	48.7	54.9
160	INFORMATION RESOURCES Chicago, IL Collects and analyzes sales information	26.3	116.7	50.4	-4.1	5.5
161	THE GAP San Bruno, CA ⁴ Owns and operates specialty apparel stores	26.3	1,188.0	513.7	63.7	16.0
162	CRACKER BARREL OLD COUNTRY STORE Lebanon, TN ⁴ Owns and operates roadside restaurants	26.0	136.8	59.4	8.0	2.7
163	CIRCLE K Phoenix, AZ ² Owns and operates convenience stores	25.7	2,785.8	1,218.4	49.5	26.8
164	SYSTEMATICS Little Rock, AR ³ Provides data-processing services	25.6	186.2	81.6	16.2	6.0
165	AMERICAN MANAGEMENT SYSTEMS Arlington, VA Provides computer systems	25.5	205.2	90.1	6.7	2.6
166	AMERICAN PRESIDENT COMPANIES Oakland, CA Provides containerized shipping services	25.5	2,082.3	915.0	80.0	97.0
167	DILLARD DEPARTMENT STORES Little Rock, AR ⁴ Owns and operates department stores	25.5	2,454.9	1,079.6	97.9	41.6
168	HEXCEL San Francisco, CA Makes honeycomb core panels for aerospace use	25.4	389.8	171.9	15.5	5.2
169	BINDLEY WESTERN INDUSTRIES Indianapolis, IN Wholesales pharmaceuticals	25.0	1,212.4	538.4	1.6	4.1
170	NWA St. Paul, MN Controls Northwest Airlines	24.8	5,445.9	2,430.5	101.2	98.1
171	AMDAHL Sunnyvale, CA Manufactures mainframe computers	24.8	1,739.0	777.1	199.4	36.0

		Average Annual Sales Growth	1988 Sales (in millions)	1984 Sales (in millions)	1988 Profits (in millions)	1984 Profits (in millions)
172	WINDMERE Hialeah, FL Manufactures personal-care products	24.7	197.2	88.2	25.8	7.1
173	FREEMORE MCMORAN New Orleans, LA Mines sulphur, uranium, copper and gold	24.6	1,843.0	826.8	308.9	92.2
174	VF Wyomissing, PA Manufactures blue jeans and other apparel	24.5	2,531.2	1,138.0	179.4	123.4
175	SHAW INDUSTRIES Dalton, GA Manufactures carpets	24.4	1,055.1	475.1	36.6	24.6
176	GENERAL CINEMA Chestnut Hill, MA 2 Owns and operates movie theater chain	24.4	2,040.3	918.8	110.4	70.3
177	BLACK HILLS Rapid City, SD Operates electric utility and mines coal	24.2	225.5	102.1	21.2	16.8
178	DYNATECH Burlington, MA Designs and makes communications equipment	24.1	396.7	179.7	26.9	12.8
179	HEILIG-MEYERS Richmond, VA 2 Owns and operates furniture stores	24.1	334.3	151.8	16.5	10.8
180	ASK COMPUTER SYSTEMS Los Altos, CA Produces management software and systems	23.9	155.1	70.6	11.3	6.9
181	SAFETY-KLEEN Elgin, IL Provides parts and tool-cleaning service	23.9	390.7	177.9	38.1	18.4
182	JAMES RIVER Richmond, VA 4 Makes paper and packaging products	23.8	5,474.8	2,497.8	230.1	105.3
183	ROUSE Columbia, MD Owns and manages shopping centers	23.8	428.9	196.1	16.8	9.5
184	SUPER RITE FOODS Harrisburg, PA 2 Owns and operates supermarket chain	23.7	683.9	313.0	6.8	4.5
185	JOHNSON CONTROLS Milwaukee, WI Designs and installs automatic building controls	23.5	3,099.6	1,425.3	103.5	66.7
186	INTERNATIONAL TECHNOLOGY Torrance, CA Provides environmental services	23.4	245.5	113.2	-5	5.3
187	DAVIS WATER and WASTE Thomasville, GA 2 Distributes pipes, valves and meters	23.3	176.3	81.4	2.6	1.1
188	THE RYLAND GROUP Columbia, MD Constructs houses	23.3	841.5	388.7	35.0	10.6
189	SONOCO PRODUCTS Hartsville, SC Makes plastic and paper packaging	23.2	1,572.6	727.7	84.0	41.3
190	DREYER'S GRAND ICE CREAM Oakland, CA Manufactures ice cream	23.2	183.6	85.1	5.8	6.7
191	ADC TELECOMMUNICATIONS Bloomington, MN 2 Manufactures telecommunications products	23.1	182.6	84.8	17.6	4.2
192	BUILDERS TRANSPORT Camden, SC Trucking firm	22.9	200.0	93.2	2.3	6.8
193	CORROON & BLACK New York, NY Insurance brokerage	22.8	409.0	191.2	114.1	16.5
194	NATIONAL PATENT DEVELOPMENT New York, NY Makes drugs and health-care products	22.8	255.7	119.6	-20.7	13.6
195	SILICON SYSTEMS Tustin, CA Designs and makes integrated chips	22.7	120.9	56.6	12.7	7.0
196	THORTEC INTERNATIONAL San Mateo, CA 2 Provides engineering and architectural services	22.6	122.5	57.5	-26.8	2.7
197	MARRIOTT Washington, DC Operates hotels, resorts and restaurants	22.6	7,121.3	3,344.5	229.2	124.4
198	SIGMA-ALDRICH St. Louis, MO Makes biochemical and organic products for research	22.6	362.4	170.3	53.5	22.6
199	MASCO Taylor, MI Manufactures auto parts	22.5	2,372.3	1,115.5	269.8	127.5
200	INTERGRAPH Huntsville, AL Makes computer-graphics workstations	22.5	780.7	367.6	87.7	54.8

DEFINITIONS

Average annual sales growth: reached by subtracting sales for the first four quarters from sales for the most recent four quarters, dividing the remainder by sales for the first four quarters, and then dividing the result by five

1988 sales: sales for four quarters ending September 30, 1988, unless otherwise noted

1984 sales: sales for four quarters ending September 30, 1984, unless otherwise noted

1988 profits: net earnings for four quarters ending September 30, 1988, unless otherwise noted

1984 profits: net earnings for four quarters ending September 30, 1984, unless otherwise noted

Source: Standard & Poor's Compustat
Table prepared by Fred F. Jespersen

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Business is booming as more and more companies invest in Spain with favorable results. Modernization and generous government subsidies are paving the way for foreign investment.

Starts on page 78

PERSPECTIVE

chapter Geneen talked of all the theories on management he had been exposed to and how none had

worked out. Then he wrote, at the end of the chapter:

"Over a half century has

gone by since I began making business decisions, and if I were forced to try to sum it all up, I would have to say that the best way to run a business with the best hope of eventual success is to do it as you would cook on a wood-burning stove.

"How do you cook on such a primitive stove? Because you know that you cannot control all the elements of fire, wood, air flow, etc., you keep your eye on everything at all times. You follow the recipe to an extent, but you also add something extra of your own. You do not measure out every spice and condiment. You sprinkle here, you pour there. And then you watch it cook. You keep your eye on the pot. You look at it and check it from time to time. You sniff it. You dip your finger in and taste it. Perhaps you add a little something extra to suit your own taste. You let it brew a while and then taste it again. And again. If something is wrong, you correct it. Whatever you do, the most important thing is to keep your eye on it. You don't want it to be ruined when you are off doing something else. When it is done to your satisfaction, you're right there to take it off the stove. In the end, you will have a pot roast or a lamb stew that is the very best you could possibly make, a joy to your palate and a tribute to your ability as a cook. It will taste far better than any slab of meat you cook automatically by pushing buttons on a microwave oven. That is how you would cook on a wood-burning stove when nothing is preset. And that

Q: How Can You Ensure Ethical Behavior from Your Managers?



West

"We have a published policy on business conduct. We update it regularly, distribute it to all of our salaried employees and ask them to sign an acknowledgment that they have read it. Then if there are breaches of that policy, justice is swift and sure. It happens rarely, but we have terminated corporate officers."

ROBERT WEST, Chairman and Chief Executive Officer, Butler Manufacturing



Phillips

"Our corporate policy manual deals with all matters relating to ethical behavior—from equal opportunity to prohibitions on accepting gifts from anybody who does business with us. In addition, all executives certify in writing that they hold no investments in companies we do business with. Any employee who breaches these policies is subject to dismissal."

LAWRENCE PHILLIPS, Chairman and Chief Executive Officer, Phillips-Van Heusen



Banks

"We have a standard-of-ethics policy, but I have found that those policies are no better than the paper they are written on. It is far more effective to have executive officers who exhibit high ethical standards. If a manager doesn't conduct himself as he should, he is dealt with swiftly. In that way, the word spreads throughout the company that we are not going to condone unethical practices."

RUSSELL BANKS, President and Chief Executive Officer, Grow Group



Llewellyn

"The CEO has to be the model for ethical standards. It's like the Marine Corps: The leader has to be able to do everything the rest of the troops do, and he has to be able to do it better. I don't think written policy statements are worth anything. Managers will treat customers and workers fairly if the CEO does."

STEVE LLEWELLYN, President and Chief Executive Officer, Ocean Spray



Langenberg

"All of our salaried employees are required to sign a form stating that they have not participated in or received any questionable payments. And all employees who could influence purchases must sign a statement that they have not been involved in any transaction that could be considered a conflict of interest. Finally, our internal audit group has direct access to the audit committee of the board of directors."

FREDERICK C. LANGENBERG, Chairman and Chief Executive Officer, Interlake Corporation

"TIME AFTER TIME, FOREIGN competitors have taken over markets American companies once pioneered and led. In 1970, U.S. producers had 100 percent of our domestic consumer electronics market. Today, they hold 5 percent. We pioneered semiconductor technology. Yet today, U.S. suppliers hold less than 30 percent of the world market. Japan has 65 percent."

John A. Young, President and Chief Executive, Hewlett-Packard Company, in a speech to the American Electronics Association

is the frame of mind to take into the art of conducting and building a successful business."

—JOHN VAN DOORN

Health-Care Costs Sedated

JUST WHEN COMPANIES were beginning to feel some semblance of control over health-care costs, mental-health and substance-abuse expenses started to run hog-wild. GTE California, one company that found itself being overcome by the stampede, decided to do something about it.

According to Bruce Taylor, the company's manager of employee insurance, costs were on their way to doubling from \$7 million in 1984 to a projected \$13.8 million in 1987, driven by a benefits package that seemed to be designed for maximum cost and minimum employee satisfaction. Under the plan, the more expensive inpatient care was fully covered while re-

PERSPECTIVE

imbursement for outpatient therapy was limited to \$40 per visit—well below most therapists' rates. As a result, most patients fared better financially if they checked into the hospital and stayed there.

To realign the incentives, GTE California decided to chuck its old mental-health-care package at the beginning of 1987 and form a preferred provider organization (PPO). Members, both hospitals and outpatient therapists, agreed to have their treatment monitored by the company's "case managers." In exchange, all care obtained from a PPO member was fully covered. Care provided by a nonmember was also subject to case management, but even if it was approved, the employee had to pay 20 percent plus a deductible.

The result of the GTE reform was that more people got help for less money. The number of employees opting for outpatient thera-

py increased by 41 percent. The number of bed days per month in the bankrupting inpatient environment plummeted by 25 percent. The company wound up spending \$10.2 million instead of \$13.8 million for 1987, and Taylor expects 1988's figures to drop to about \$8 million.

—CRAIG MELLOW

Their Compact Is Broken

ON FEBRUARY 21, Compaq Computer Corporation dealt the corporate equivalent of a two-by-four between the eyes to one of its largest dealers, Businessland Inc., when it canceled the computer retailer's contract to sell Compaq products. While it was no secret that there had been friction between the two companies for several years, few in the industry expected such a dramatic conclusion. Last year, 7 percent, or \$147 million of Compaq's \$2.1



Rod Canion and Compaq got Businessland's attention. Now what?

billion in sales, came from Businessland, and Compaq products accounted for 15 percent of Businessland's 1988 revenues.

Industry insiders say the source of the conflict was the cavalier attitude Businessland's management developed toward Compaq after IBM introduced its PS/2 Micro Channel family of personal computers in 1986. IBM, which accounts for 31 percent of Businessland's sales, offered the retailer a variety of incentives to push the new system, including larger margins on IBM computer sales. Presented with a golden opportunity to play both ends against the middle, Businessland asked Compaq and other manufacturers of IBM-compatible PCs to provide similar incentives. But Compaq balked. "We are the only personal computer maker to sell solely through dealers, and we consider our dealers' confidence critical to our ongoing success,"

says Michael S. Swavely, Compaq's vice president of sales and marketing. "The special terms would have given Businessland an unfair advantage over other dealers."

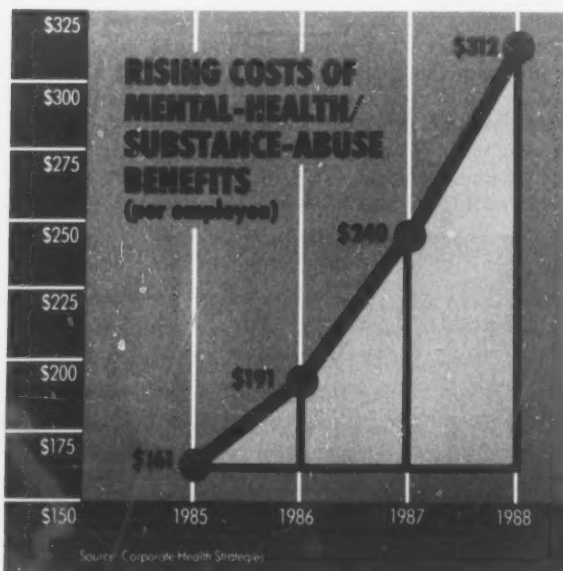
When Compaq's management declined to play the incentives game, Businessland realigned its commission structure to give salesmen larger commissions for selling IBM computers and lower commissions for selling Compaq machines. It also began letting industry analysts know that it considered Micro Channel the top PC architecture and, while it would continue to sell and service non-IBM equipment, its promotional emphasis would be on IBM. Compaq couldn't tolerate such blatant discrimination long, even from one of its most important dealers.

Although Compaq adamantly insists that its break with Businessland wasn't a tactic to get anyone's attention, the action did send a clear signal across the land that it's not a good idea to fool with the second largest computer maker even at the behest of the largest. And, intended or not, several dealers say they got the message.

—LAUREL B. CALKINS

Management in The Next Century

THE 21ST CENTURY IS rapidly bearing down on the manufacturing industry, and if a recent study for the Society of Manufacturing Engineers is any guide, U.S. companies are far from ready. A.T. Kearney, a consulting firm, and



LEONARD SILK ON ATTILA THE HUN AS CEO

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LETTERS

MANAGEMENT TEAMWORK

The article "Hot Managers, Sizzling Cities" (June) is excellent. There is much to be gained through the interchange of ideas between successful cities and those undergoing similar revitalization efforts. Teamwork among government, business, and community is the formula used by today's city managers to keep cities streamlined, alive, and thriving.

CLAIRE ROSACCO
Press Secretary
Mayor's Office
Cleveland, Ohio

SAME SALARIES

Andrew Richter's column "Putting Some Sanity Back in Salaries" (Compensation, June) struck a responsive chord. The problem of pay-scale compression is all too familiar to me. I recently took over management of an R&D group and found that I had to pay new scientists significantly higher salaries than what people already there earned.

I learned, however, that something could be done about this. For one thing, I asked personnel to perform an evaluation of the salaries in my group, and after taking an industry survey, they agreed that the group was underpaid. This enabled me to extend the range of the group's job grades without creating new titles and an artificial layer of management.

Then, instead of going for little increases one at a time on the basis of what I could get through without heavy scrutiny, I decided at which level an employee should be and then worked with personnel and management to come up with a several-step plan to correct the salary level. That way, everyone knew what to expect from the beginning.

Of course, none of this works unless you reward only your good employees. Try it as an undifferentiated approach, and you'll lose all credibility.

LARRY MAKOW
Manager, R&D
Siemens Medical Systems, Inc.
Iselin, New Jersey

In dealing with the difficulty and high cost of recruiting MBAs, noted by Andrew Richter and others in your pages, companies should consider the part-time MBA programs available to their workers in most metropolitan areas. Employee/students already know their firm's culture and priorities, so they can immediately relate their evening course work to their employer's needs during the day. And since the "homegrown MBA" is already known to the firm and has job seniority and roots in the community, retention is more certain and recruiting pains are eliminated.

JACOB DE ROOY
Director, MBA Program
School of Business Administration
Pennsylvania State University
Harrisburg, Pennsylvania

OVERLOOKED WORKERS

In her column on U.S. industry's labor shortages (Human Resources, April), Audrey Freedman overlooked a group of people that could help solve this problem: those labeled "disabled." According to various studies, two-thirds of Americans with disabilities are unemployed, and only 48 percent of disabled workers who are out of jobs for five months or longer ever return to work.

These workers have proved themselves reliable employees. And given the decline in physical barriers and the move toward an information economy, they should be considered a viable source to help fill the labor gap. The Mad Hatters Educational Theatre for the Understanding of People with Special Needs or Disabilities provides performances and training for employers and others to prove that disabled people can be able workers.

ROBERTA ROBINSON
Executive Director
The Mad Hatters
Kalamazoo, Michigan

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PERSPECTIVE

arrives at work early and stays late. The disease they point to is corporate crime: theft, embezzlement, or espionage.

Although exact figures are hard to pin down, some security-industry experts estimate that crimes committed by employees and executives cost corporations as much as \$100 billion a year. And according to Barry Brandman, vice president of Danbee Investigations, a firm that specializes in uncovering insider crimes, there is a 50-50 chance that employees are stealing from their companies at any given time.

Even so, when an employer begins to suspect one of his employees, he is often unsure of where to go for help, which means corporate crimes are rarely detected and rarely reported.

Most corporations fall victim simply because their executives can't recognize the clues. For example, an employee who often wanders outside his normal work area may be gathering information for a competitor. A former executive who maintains unusually close ties to his previous employees may be doing so to gather proprietary information from them. Unexplained inventory shortages, a sudden decrease in a customer's orders, and overly friendly relationships between employees and outside truckers could point to inventory theft. Rewritten account entries and large purchases from vendors without competitive bidding suggest the possibility of embezzlement or kickbacks.

If a CEO suspects something is amiss, he should

probably call in an outside firm, such as Danbee, to ferret out the culprits, since most employers find it difficult to investigate their colleagues and an unsubstantiated accusation can open up the firm to litigation. Brandman recalls one investigation in which he used a hidden video camera to catch an executive who had been taking company files and turning them over to a competitor. He was a trusted employee and never would have been suspected

if he hadn't been caught in the act. —KEITH GIRARD

Learning to Take Risks

MIT HAS NOW JOINED the chorus of critics who are warning the managers of America's industrial companies that they are losing ground to their foreign competitors and may lose the race into the next century. According to its massive two-year, 345-page

study, "U.S. industrial performance is in serious trouble." To hold their lead, the researchers suggest, American managers must adjust their attitudes toward the work force.

If productivity is to improve, managers must treat labor as an asset rather than a cost. The system in which employees are viewed as replaceable cogs on a wheel, whose only use is to perform repetitive tasks, must be abandoned. Productivity will improve when every manager and worker knows the ins and outs of the entire production process. From this resource of well-rounded workers will come more risk taking and innovation.

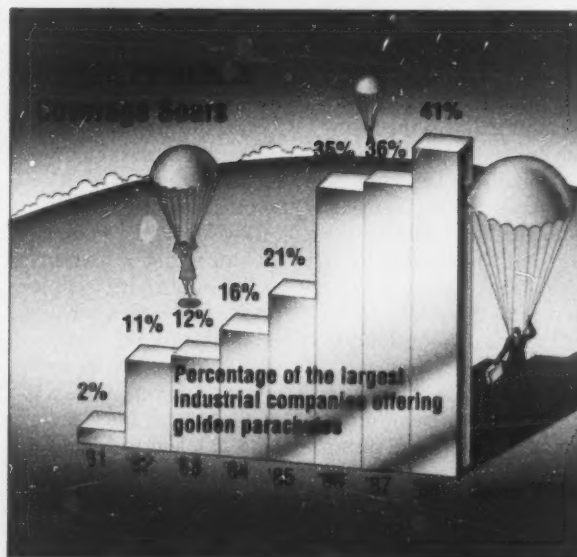
But skilled and flexible workers must be educated. The study found that the passive "follow Joe around" method of employee training doesn't work. Frequent job rotations to familiarize both workers and managers with all phases of production and constant hands-on training and retraining need to be part of the normal work schedule.

Finally, a flexible, risk-taking worker is useless in the rigid structure characteristic of most American corporations. A more productive management structure would be a kind of flattened hierarchy that allows superstars to shine, even as the diverse talents of the team combine to win the game. To promote this structure, managers need to reward both the individual who has a great idea and the teamwork that made the idea a reality. Sort of like the Boston Celtics.

—P.K.

Bailing Out for Profit

DESPITE THE EFFORTS OF CONGRESS AND THE IRS to tangle the most controversial token of corporate management's generosity to itself, the golden parachute is soaring even higher these days. According to *Mergers & Acquisitions* magazine, nearly 3,500 companies merged, acquired, or LBO'd last year, sending scores of executives hunting for jobs and pulling rip cords. In an environment where no company is safe from a takeover, golden parachutes—and the tin parachutes demanded by less exalted managers—have become an essential tool for attracting talented executives. The following chart shows the extraordinary growth in the number of large industrial companies that offer golden parachutes to their executives. The sky is filling up fast.



example, the company is able to reach a vast audience for far less cost. Half of the ad budget now goes to Europewide campaigns, a move that has allowed it to reduce the number of ad agencies used to mount its promotions from 60 to 4. The money formerly spent on duplicate creative work will be used to expand 3M's media exposure. "Before the EMATs, we would have had 17 different ad campaigns for the 17 countries we sell in," Warren says.

In anticipation of open borders, 3M has been preparing its extensive network of manufacturing facilities to capitalize on a host of new opportunities. While production capacity has been expanded, output has been concentrated at specific plant sites to take advantage of the economies of scale. A plant in Wales, for example, makes videotapes and videocassettes for the whole of Europe; the only difference is the language on the packages. New cost-cutting and quality-improvement techniques, including just-in-time inventory control and production methods, have been introduced on the plant floors. To reduce dependence on country-based warehousing and consolidate distribution centers by regions, electronic order-management systems are being installed that will link customers throughout Europe with 3M's nearest supply houses. Most of these changes, which would be difficult without the elimination of the old and complex customs barriers, move 3M toward its goals of slashing labor and quality costs and reducing product-development time 40 percent by 1990 and inventories one-third by 1992.

Warren may carry the consolidation trend much further into the structure of the European organization. As sales of given product groups reach a critical mass, he plans to centralize each in a regional headquarters, which would make it easier to respond to changing market conditions. Already 3M has made its first move in this direction by putting its large automotive- and aerospace-products group under one roof in Germany.

With December 31, 1992, still over three years away, the newfound cooperation among management in different countries is already having an impact: 3M has produced its first Pan-European consumer product—the Soft Scour cleaning sponge. It was developed in 3M's French consumer-

products laboratory in 1987, manufactured in a Spanish plant, and marketed across Europe by its British subsidiary.

But even as the company accelerates its Pan-European strategy, it is trying to preserve the advantages derived from its time-honored position in local markets. Warren insists that in-country managers maintain as much local flavor in their operations as possible. Sales forces must consist of local people familiar with the language and customs of each country, and distribution managers must keep close track of the selling patterns peculiar to different nations. Since there are few mass merchandisers in Italy, for example, smart suppliers cater to the special needs of the small family businesses that dominate

the economy.

As 1992 approaches, Warren is confident that 3M has made and continues to make all the right moves to reap the rewards of a united Europe. As he says, the company now has the right resources in the right places and finds remarkably few obstacles to its progress in the EC's deliberations. "We don't have to make any more major changes," he says. —TOM MURRAY

SCOTT PAPER COMPANY

MARKETING TO LOCAL TASTES

IT DIDN'T TAKE PROJECT 1992 to get Scott Paper Company chairman Philip E. Lippincott interested in Europe. He was interested because of the simple fact that Europeans, who ac-

REALIGNING THE WORLD'S MARKETS AFTER 1992

	UNITED STATES	EUROPEAN COMMUNITY	JAPAN
Flag			
National Anthem	"The Star-Spangled Banner"	"Ode to Joy" (from Beethoven's Ninth Symphony)	"Kimigayo"
Population	248,451,000	325,200,000	123,220,000
Area (in sq. miles)	3,618,769	871,406	143,750
Gross Domestic Product (in billions of U.S. dollars)	\$4,795.7	\$4,727.2	\$2,841.3
Total Imports (in billions of U.S. dollars)	\$459.6	\$1,081.3	\$187.4
Total Exports (in billions of U.S. dollars)	\$321.6	\$1,063.6	\$264.9
Average Hourly Earnings in Manufacturing (in U.S. dollars)	\$13.90	\$2.73 to \$18.07*	\$13.14
Unemployment Rate	5.5%	10.7%	2.6%
Inflation Rate (1st quarter, 1989)	4.8%	4.7%	1.1%

* Represents the range of average earnings found in the 12 EC countries. Portugal has the lowest and West Germany the highest.

Note: All are annual 1988 figures except Unemployment and Population, which are 1989, and where otherwise noted.

Sources: Bureau of Labor Statistics, Eurostat, International Monetary Fund, Organization for Economic Cooperation and Development, U.S. Bureau of the Census.

NORMAN MACRAE: NOW, THE BAD NEWS ABOUT 1992

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on Joint Ventures — and Won

RECRUITMENT

John Hancock's Winning
Solution to Scarce Labor



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Raab Has Tripled
AMP Inc.'s Sales in
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LETTERS

A NEW PARTNERSHIP

Your July issue centering on managing for the 1990s was fascinating and a good source of discussion about where business will be in the next decade. But I am disappointed that one new development—business partnerships with education—was only mentioned in passing.

The realization that the number of job applicants will be decreasing and a sense of urgency about upgrading the quality of this country's schools have led many businesses to consider forming partnerships with both primary and secondary schools. These partnerships help guarantee a better-educated work force to take up the challenges business will face in the 1990s and beyond. With companies getting flatter, the need for specialists increases, and the only place these specialists will come from is our schools.

RANDALL S. HANSEN
Tallahassee, Florida

THE WRONG APPROACH

Reading Leonard Silk's column on corporate culture (July), I am reminded of my experience in a large company that intentionally tried to change its culture. After about two years, nothing had changed.

I came away realizing that you cannot program the way people interact with one another and conduct business. Everyone in the organization, as if studying for a driver's test, quickly learned the rules and then went on doing things in the old way. Top management was just as quick to disregard what it was trying to do when it conflicted with day-to-day results.

FRANK PUCCIARELLI
Chief Financial Officer
Park Avenue Publishing
New York City

COAL GROUP'S REBUTTAL

In the article "Gearing Up for Reregulation" (July), Robert W. Crandall stated that the 1977 amendments to the Clean Air Act resulted in "a predictable increase in acid rain and a

call for new legislation that may curtail all coal consumption." According to statistics from the Environmental Protection Agency, sulfur dioxide emissions from coal-fired power plants have been cut by 8 percent since implementation of the amendments. And between 1973 and 1987, when coal use grew by 85 percent, emissions declined by 21 percent.

The substantial pollution-abatement progress of the past two decades is well documented and will continue under existing law. If Congress acts to further accelerate emissions reductions, it will not be because the coal industry somehow shot itself in the foot. It will be because our lawmakers ignored the facts and bowed to pressure from special-interest groups that are pursuing their political agenda regardless of the benefit or cost.

DANIEL R. GERKIN
Senior Vice President
National Coal Association
Washington, D.C.

STOCKHOLDERS BEWARE

I disagree with Michael L. Pearce's response (Letters, July) to Leonard Silk's column on executive ethics (May). Pearce says that it "behooves us, our lawmakers, and our law enforcers to stop behaving as though corporations have consciences." Just one paragraph later, he rails against laws that "invariably punish the corporation, which is to say its stockholders." If stockholders are the corporation, is he implying that stockholders are without conscience?

The point is that stockholders invest in a risk situation. If they don't take ethical responsibility for their investment, they will be slapped with financial responsibility.

EVELYN EMAN
Senior Consultant
L.C. Williams & Associates, Inc.
Chicago

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PERSPECTIVE

ON MANAGEMENT

MI CPA Es Su CPA

CORPORATE CLIENTS CAN be pardoned if they view the rash of mergers between Big Eight accounting firms with some trepidation. If the two latest deals go through—Arthur Andersen hooking up with Price Waterhouse and Touche Ross with Deloitte Haskins & Sells—hard on the heels of the linkups between Ernst & Whinney and Arthur Young in July

and Peat Marwick and KMG Main Hurdman two years ago, the Big Eight will shortly become the Big Five. Whether or not these mergers help the firms compete more effectively in the global marketplace, as the participants claim they will, they do present some potentially serious disadvantages for clients.

Now, CFOs who feel compelled to hire big-name firms face the possibility of major hikes in auditing and consulting fees. And if they don't like it, switching

won't be easy, since there are fewer firms to choose from. Also, executives who have been through the merger mill themselves and know how rocky things can be when two former rivals try to work together have legitimate concerns about the quality of service they will get, especially in the early stages of consolidation.

Finally, auditors quick to raise red flags when they see clients' conflicts of interest are finding it remarkably easy to wink at those arising from the accounting-firm mergers. For example, PepsiCo is an Arthur Young client, and Ernst & Whinney is privy to Coca-Cola's books. PepsiCo says it doesn't mind that the two firms are now under the same corporate roof, but the possibility of its auditor sharing anything with a competitor's auditor can't be much of a confidence builder.

—STEPHEN W. QUICKEL

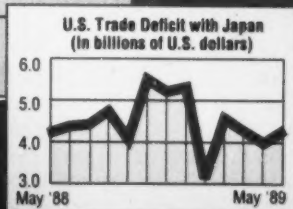
Japan Invests, America Buys

THE U.S. TRADE DEFICIT CANNOT IMPROVE DRAMATICALLY as long as capital spending by Japanese companies continues to run at twice what American companies spend. The more new plants and equipment that are installed in Japan, the greater its industrial output and the more pressing its need to keep exports high. Small wonder, then, that the U.S. trade deficit with Japan shows no sign of improvement, even though the worldwide trade gap has narrowed.

—S. W. Q.

1988 Capital Spending Japan vs. United States

The engine that is defeating U.S. efforts to cut the trade deficit with Japan



Source: U.S. Department of Commerce

CHART: DALE GLASGOW & ASSOCIATES; PHOTOGRAPH: STEVE HILL



For Malcolm Kushner, making executives funny is a serious business.

but also to tell an entire group of employees they were, as a breed, morons," says Malcolm Kushner, a humor consultant who specializes in teaching executives how to avoid such devastating miscalculations.

In the five years since hanging out his shingle in Santa Cruz, California, Kushner has accumulated a sizable collection of such bad jokes as he travels around the country delivering one- and two-hour, \$3,000 lectures on why humor is a valuable business tool—if you know how to use it. His clients include Pacific Gas & Electric, Digital Equipment Corp., and Hewlett-Packard.

He's never been a professional comedian—he was a practicing lawyer—and his only brush with performing

A Corporate Good Humor Man

My secretary was shocked the other day. Until now, she had always thought that a thesaurus was a prehistoric animal with a really large vocabulary.

"It's amazing, but an executive actually told that joke to a group of state clerical workers, and in one fell swoop managed not only to offend all women

PERSPECTIVE

becoming CEO early last year, says that naming three COOs is "a progressive management approach" that "continues our process of removing management layers." In fact, nobody has been removed. Three men—electronics chief Kent Black, industrial automation chief Tracy O'Rourke, and aerospace chief Sam Iacobellis—still have their old jobs, with an added ceremonial title.

So what's Beall up to? A horse race for succession? Hardly. Beall, 50, will be running Rockwell for years to come. But maybe that is the progressive management approach: compensating Black, O'Rourke, and Iacobellis for the obvious lack of advancement potential. Anybody who tries to hire them away from Beall now is going to have to come up with a CEO job. Or a real COO job.

Or perhaps what Beall has done is create an office of the chairman—without having to call it that, since such joint-management arrangements look terrific on paper but usually produce more friction than profits. They have also been known to drive away truly talented top managers, which, it turns out, could be an innovative way to remove management layers. —S.W.Q.

Disabled Win At Pizza Hut

WAYNE EVANS IS THE kind of employee most fast-food restaurant managers have despaired of finding. He shows up on time every morning and plunges into his less-than-glamorous

work: taking out the garbage, cleaning up the grounds, busing tables. Asked how he likes his job, Evans responds immediately, "I love it here."

What the world has always considered Evans's disability has become an asset for the Cranford, New Jersey, Pizza Hut where he works. Evans is mentally retarded. He is also part of a new trend in hiring prac-

tices. At a time when labor is scarce, the mentally and physically disabled have become an important untapped resource. There are over 8 million disabled Americans who want to work but do not, according to a 1985 Louis Harris & Associates survey.

Though most interest in the disabled has focused on the new capabilities they can acquire thanks to com-

puter technology, the employers most eager to hire them are far from the high-tech world. "The biggest wave now," says Jay Rochlin, executive director of the President's Committee on Employment of People with Disabilities, "is from the industries most affected by the baby bust of the 1960s: hospitality, restaurants, retail."

Pizza Hut, after a successful experiment in its Orange County, California, restaurants, has established one of the most ambitious national programs, promising to hire 2,000 disabled people over the next three years. Steve Zivolich, a consultant at Integrated Resources who is managing the program, says 800 are already on board, holding virtually every position except cashier and waiter.

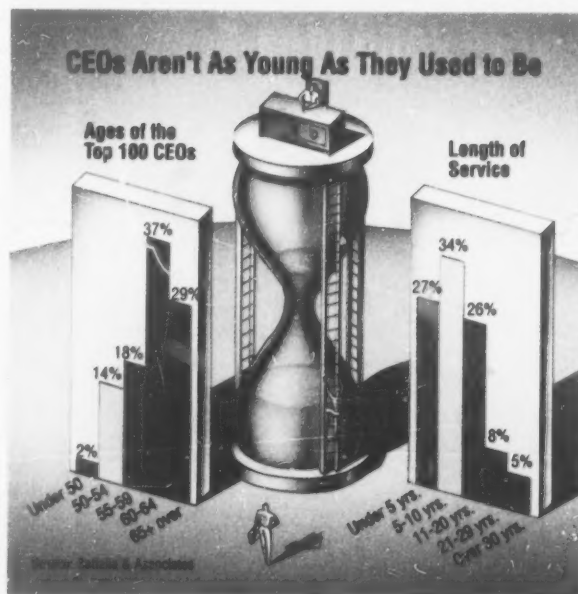
The hiring and training process is more complex for disabled than for non-disabled employees. They must be recruited through social-service agencies, which, Zivolich claims, "often have the attitude that these people aren't capable of working." Once recruited, they may require a "job coach" to ease them into the new routine. Such coaches, however, are provided and paid for by the agencies. Transportation can also be a formidable obstacle.

The payoff comes in reduced turnover. After three years, 70 percent of the disabled employees hired in the Orange County program were still on the job. In an industry that averages a 200 percent annual turnover, such a figure is indeed music to management's ears. —C.M.

CEO Turnover Made Easy

THE TREND IN CEOs THESE DAYS IS OLDER AND shorter. Not in height, mind you, but in tenure. It seems that boards of directors favor company chiefs in the last stages of their careers who won't hold power for very long. According to a study done by executive-search firm Battalia & Associates, "In the last decade, one-third of the top 100 industrial companies replaced their CEOs with men who were within arm's length of retirement." Throughout the 1940s and 1950s, CEOs commonly served 30 or 40 years. Now, the average CEO has about 10 years to make his mark on a corporation. The reason behind this shift? Boards believe that periodically infusing the executive suite with fresh blood gives it a better chance of competing in today's tougher, ever-changing market. And it's much easier—and cheaper—to accomplish this through retirement than through firing.

—PAMELA KOFFLER



THE MAGAZINE OF CORPORATE MANAGEMENT

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Special Report: Are You a Victim of Salary Gridlock?

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LETTERS

THE NATIONAL HEALTH

The approaches of companies to medical-cost inflation described in Laurie Baum's article "Health Care Under the Knife" (August) fail to address the root causes of the health-care crisis. These include: 37 million Americans without health insurance, a critical shortage of nurses, an aging population with increased medical problems, and the AIDS crisis.

While the companies' creative solutions have helped ease the cost burden faced by the business community, they might only bring short-term relief. The long-term solution lies with the federal government. Perhaps now is the time for the business community to take a serious look at a national health-care program that would address the needs of both employers and employees for quality health care at reasonable costs.

ARNOLD KOROTKIN, ACSW, MBA
CEO, AMK Associates
Upper Montclair, New Jersey

REGULATING THE SUPPLY SIDE

One point to add to Robert W. Crandall's "Gearing Up for Reregulation" (July): Do not forget about your supply sources. Just because you've done everything right to protect your operations does not mean the suppliers you depend on have done the same. Companies should work with their suppliers to make sure they are doing their part, or one day they may find themselves with higher costs for component parts and supplies or without an ingredient they need for production.

HENRY BARTELS
Lake Carmel, New York

STOCK SOLUTION

Peter Earle's article on employee stock-ownership plans (July) was misleading on one key issue. Earle correctly points out that ESOPs only contribute to corporate performance when linked with a high degree of employee participation. Unfortunately, he interprets "participation" to mean

the percentage of employees owning stock. In fact, the research was describing employee involvement in decisions affecting their work. Employee participation groups, quality circles, labor-management advisory committees, and similar approaches would be examples. This kind of participation translates the motivation of ownership into the opportunity to share the ideas and information that allow a company to perform better.

COREY ROSEN
Executive Director

National Center for Employee Ownership
Oakland, California

INTERNATIONAL EXCHANGE

Your special report on "Managing for the Global Decade" (July) was extremely interesting and informative. In addition to the standard economic considerations for business ventures, businesses with international offices or operations must take into consideration the regulations governing the transfer of overseas personnel to the U.S. and U.S. personnel overseas.

Advance planning is critically important in immigration matters. For example, international businesses frequently are eligible under U.S. law to establish in advance corporate programs that greatly reduce the time and expense involved in transferring key personnel to this country.

In the case of the transfer of U.S. personnel overseas, equal care and attention must be given to obtaining the appropriate work permits and visas for the country where the individual will be located. This is particularly important given events such as the economic unification of Europe in 1992, the opening of economic opportunities in Japan, and the Free Trade Agreement between the U.S. and Canada.

PHILIP M. KEATING
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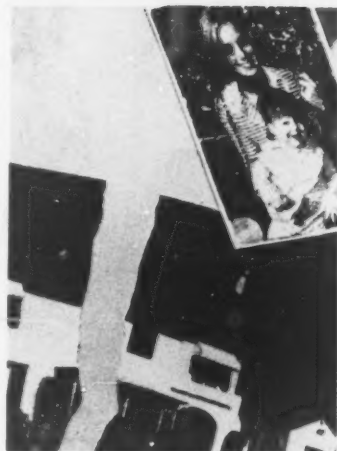
IT WAS JUST A SO-SO YEAR for indicted junk-bond king Michael Milken: He pulled down a reported \$100 million in 1988, far short of the stunning \$550 million he collected in 1987. F. Ross Johnson didn't do too badly either. The loser in a battle for the largest LBO in history, he made off with \$53.8 million—the bulk of it just for walking away from RJR Nabisco. Reebok International chairman Paul Fireman is no corporate titan, yet he still posted a colossal \$11.4 million in 1988—even though his company's earnings slumped 17 percent during the period.

Then there's Tim Hardy (that's not his real name). Last year this divisional head and 23-year veteran of a specialty chemical firm managed one of the only profitable units within the company—and earned just \$100,000: no bonus, no raise, no stock options.

No one ever said that life is fair.

Compensation within corporate America is bulging, all right, a harvest of seemingly infinite plenty. But most middle and upper-middle managers have not been invited to sit down at the feast, as our special report on executive compensation reveals. Salary and bonus for the typical division head nudged up some 8 percent in 1989, overshadowed by the 14 percent jump for CEOs, according to TPF&C, the New York division of Towers Perrin, a human-resources management firm.

In fact, CEOs at the largest companies now earn about \$1.3 million



BY STUART WEISS

*Why Middle Managers
May Never Find the Key to
the American Dream.*

annually in salary and bonus. Stock options can add tens of millions of dollars to the package.

Never a sure route to the top, middle management these days has become a virtual dead end for millions of onetime aspirants to the American dream. Victims of mergers and reorganization, they're lucky just to hold on to their jobs. As survivors, they often have little leverage when it comes to career

moves and advancement, much less a say in their levels of compensation. Many are in their 40s and 50s. Understandably, they fear making too many waves: If they lose their jobs and their spouses aren't working, who else can shoulder the classic burdens of a mortgage and college tuition?

Take Tim Hardy, 47, a typical middle manager now faced with diminishing prospects. His career didn't start out that way. A long road of opportunity seemed to stretch before him when he joined the company as a bench chemist back in 1966, fresh out of the University of Southern California with a degree in chemical engineering.

Hardy worked assiduously and became a salesman, doubling his salary in four years. He bought a three-bedroom house in the San Gabriel Valley. Thinking ambitiously, he got his MBA at night, paid for by the company. In those days, he was the fair-haired boy with a future. Slowly, he rose from salesman to sales manager to division manager. Still, Hardy saved next to nothing, spending everything on his wife and three kids.

Last June word came down from on high: Hardy had to uproot himself and his family or lose his job. His company, recently taken over, was consolidating management. They'd pay his moving expenses to Chicago. But the reassignment offered no raise in salary and no added bonus. Hardy had eight weeks to relocate. Again.

The first time was in 1982, when the founder retired and relin-

quished control to "professional" management. Everyone suspected that a reorganization was in the works. It was months before Hardy received any word about his future; even then it was vague, suggesting he might have to move—if, indeed, his job was to be spared. Hardy, then 40, considered his options. College bills, he knew, were just around the corner. His expertise was highly specialized, and there were only a handful of players in the industry he could jump to. Even then, a job change would force him to give up his pension. Given the choice, Hardy elected to stay with the company and agreed to a transfer to Denver, with no increase in salary.

HIS FAMILY DIDN'T TAKE it well. Hardy's eldest daughter balked at leaving her friends in L.A. She rebelled by letting her grades lapse, bouncing back and forth unhappily between public and private schools.

This time around, Hardy agonizes about his youngest son, who has grown used to life in Denver. Hardy didn't even want to tell him about the move to Chicago. But when he did, the son, furious that he had to leave behind his school buddies and his first girlfriend, punched his fist through a French window. Hardy, for his part, lost \$30,000 because of the transfer—the difference between what he paid for his house and what the company was willing to buy it for.

Like Hardy, many middle-tier managers have little control over their fates, caught in the worst of all possible worlds. Corporate restructuring is only one reason. More often, it's a case of having to take a hit when another division or the entire company does poorly. But only rarely does the middle manager benefit from improved company performance.

"When something goes right, you may get your salary and your bonus; if things go wrong, you have to worry

about getting canned," observes Graef S. Crystal, a leading compensation consultant and business professor at the University of California at Berkeley. "It's the opposite for top executives: You have golden parachutes, millions of dollars, every protection known to man. Middle management, by contrast, gets far less reward and takes on much more risk."

They're evolving into a corporate underclass, trapped in jobs that pay between \$75,000 and \$150,000 a year, with slim prospects of moving up within the organization. Few middle managers actually share in the company's largess. Reason: They rarely qualify for stock options, those vehicles of wealth that can turn top executives into millionaires overnight. "Middle management has generally been responsible for operating results and hasn't had much influence on long-term strategic decisions" that may be rewarded by stock

*They're the new corporate
underclass, trapped in jobs paying
\$75,000 to \$150,000.*

options, explains Mark Edwards, a consultant with Sibson & Co., Inc., a Princeton, New Jersey-based human-resources management firm.

So how do middle managers improve their lot? Some by joining start-ups, which hold out the tantalizing promise of stock options that may or may not be worth something one day.

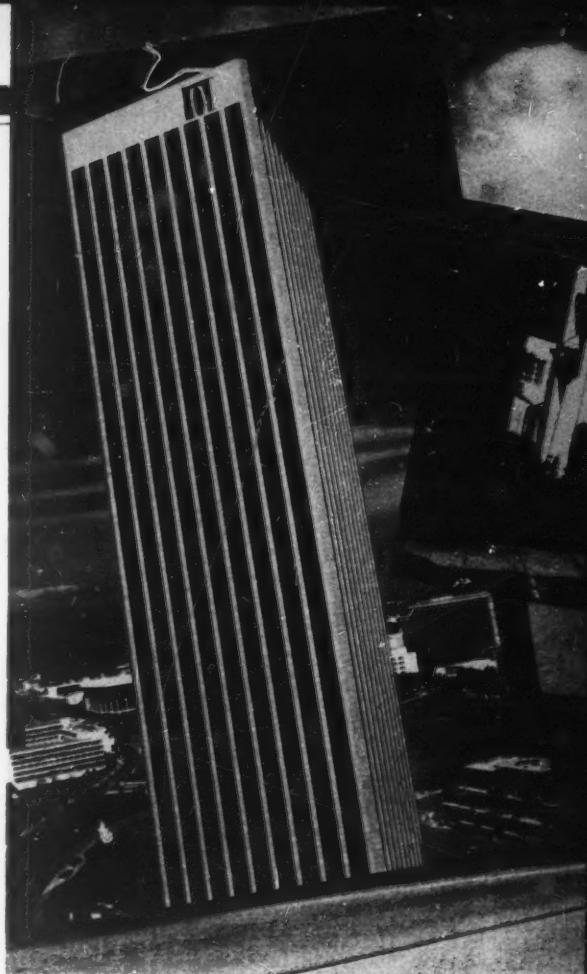
But the road is pitted with risk.

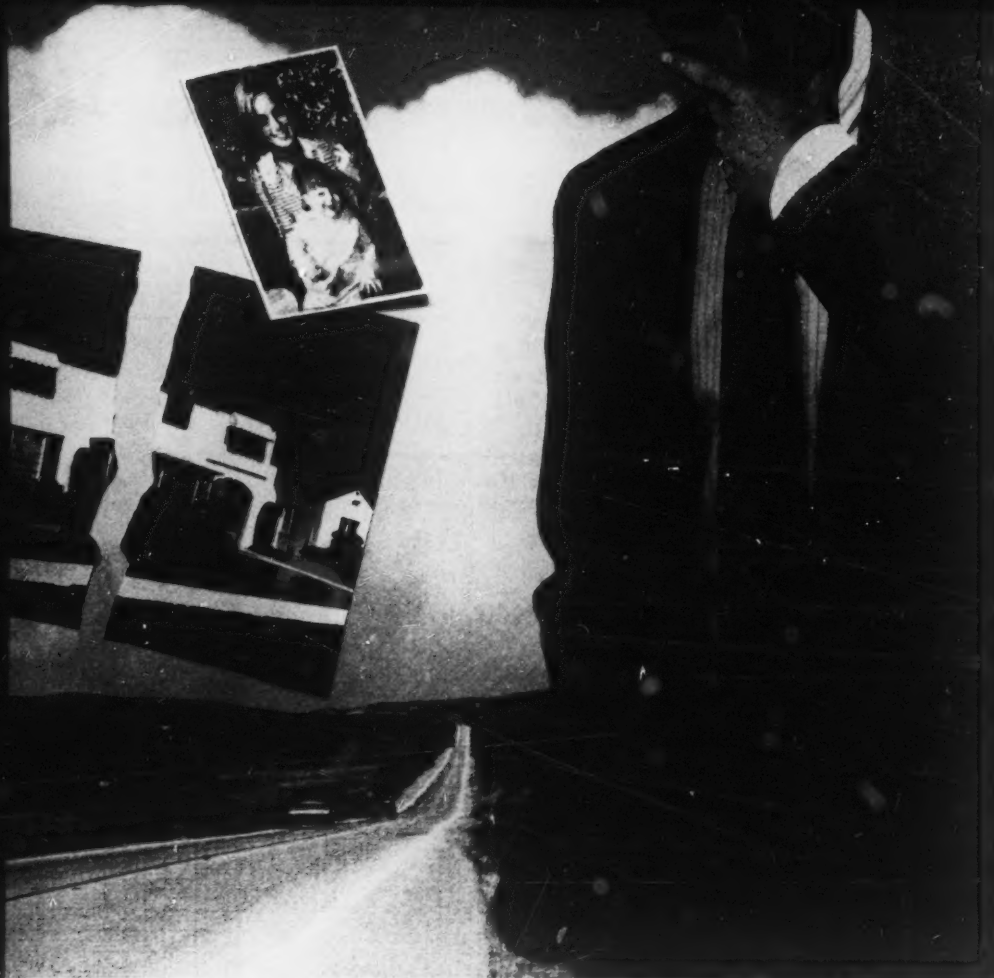
Stan Wakefield (also a pseudonym) quit his job as a commercial lending officer at the Bank of New York after its acquisition of Irving Trust. Pocketing a year's worth of severance pay,

Wakefield signed a two-year contract as a chief financial officer with a small but growing biotechnology company in San Francisco. The job pays \$125,000 a year in salary—40 percent more than he made at the bank—and offers stock options. Trouble is, the company is privately held and is unlikely to go public soon.

Moreover, Wakefield has to carry two mortgages until he can sell his house in Westchester County, where the market has been soft since Black Monday.

Some laws in the middle-management trade-up game are immutable. Line positions are more highly prized and better rewarded than staff jobs. Salaries tend to rise with a manager's





widening span of control. Bonuses increase as base salaries move up. A recent compensation study by the Wyatt Co., for example, reports that the CFO in a \$200 million manufacturing firm earned \$150,000 in salary last year and a \$50,000 bonus, a 33 percent premium. But the controller in a financial company with assets of over \$1 billion, who made \$93,000, hauled in a mere 8 percent bonus.

One passageway to relative prosperity is to become a "single incumbent," the holder of a unique position within a company. Examples: CEO, treasurer, director of marketing, and head of management-information services. "The quality of the individual determines the success or failure of that function in a company," contends Marsha Cameron Haller, a principal at TPF&C. With loftier titles, single incumbents earn more money. (Tables on pages 44 to 49 reflect average salaries and bonuses for single incumbents at companies of various sizes.)

Another way to pump up total compensation is to join a larger orga-

nization. "Part of executive pay is for stewardship of assets and employees," says Robert Miller, a consultant with Wyatt in San Francisco. "It takes a more experienced person to run a \$100 million division than a \$10 million one."

NUMBERS BEAR OUT THE point. According to a 1989 survey by TPF&C, the top advertising and sales manager at a company with sales less than \$500 million, for instance, earns an average \$82,799 annually (base salary: \$73,005). The same executive at a corporation with revenues of more than \$6 billion raked in a total \$150,941 (base salary: \$115,044). Those numbers pale next to the compensation packages dangled before CEOs at such companies, of course: \$411,946 (base salary: \$298,076) and \$1,251,917 (base salary: \$694,921), respectively.

Geography doesn't play a big role in compensation. True, pay tends to be a bit higher in New York and Los

Angeles. But that's mostly because the largest companies are concentrated in those cities, not because of their high cost of living.

Far better to pick an industry that values your specialty—and is willing to pay for it. "Marketing is much more important to a consumer-products company than a steel manufacturer," points out Edwards of Sibson & Co. The head of R&D, for instance, rakes in a total \$362,510 at the average pharmaceutical company but only \$189,563 at the typical consumer-products maker, reports a 1989 TPF&C survey.

Some middle managers, reconciled to the prospect of earning one-tenth of what their senior-level counterparts make, look elsewhere for their compensation. Instead of mon-

ey, their overriding consideration becomes quality of life. Among their concerns: housing, commuting time, job responsibilities, cultural advantages, career opportunities for their spouses, and a good education for their children. "Some people bail out," reports consultant Edwards. "They may take their cash and their options—say, a couple hundred thousand—and buy a franchise or start a small business."

But most managers hang on, goaded by the dream—or illusion—of promotion and consequent riches. "Even though the odds are against it, the prize for becoming top management is so high it's like winning the lottery," explains U.C. Berkeley's Crystal. "If you end up earning \$125,000, that's not so bad. I mean, what's the alternative? Do you want to be a garbageman?" ■

Stuart Weiss knows about the ups and downs of compensation: He has been a Business Week editor, Wall Street analyst, and free-lance writer.

WHO MAKES WHAT: AVERAGE EXECUTIVE COMPENSATION

	OVER \$6 BILLION						\$3 BILLION - \$6 BILLION					
	Base Salary			Total Compensation			Base Salary			Total Compensation		
	'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	% Inc.
Chief Executive Officer	\$657,212	\$694,921	6	\$1,116,589	\$1,251,917	12	\$598,772	\$632,760	6	\$1,101,773	\$1,274,917	16
Chief Operating Officer	448,338	480,680	7	728,768	806,945	11	394,059	432,944	10	742,710	864,506	16
Head of Manufacturing	*	*	*	*	*	*	*	*	*	*	*	*
Chief Financial Officer	*	290,063	*	*	478,585	*	*	262,930	*	*	469,716	*
Head of MIS	137,373	141,343	3	186,516	194,188	4	126,685	122,917	-3	170,766	163,019	-5
Head of R & D	208,567	210,367	1	317,006	319,700	1	181,053	169,557	-6	263,307	254,415	-3
Top Legal Executive	231,667	242,998	5	345,577	368,049	7	205,126	223,683	9	298,195	335,591	13
Top Patent Attorney	111,157	119,414	7	143,960	150,254	4	109,981	118,971	8	134,037	145,849	9
Top Personnel Executive	183,319	185,653	0	280,397	277,133	-1	163,430	171,536	5	239,900	254,999	6
Top Security Executive	75,931	77,695	2	89,419	91,797	3	76,008	78,270	3	85,818	88,064	3
Top Safety Executive	71,616	74,103	3	82,389	84,890	3	75,612	82,224	9	86,986	98,054	13
Top Marketing & Sales Executive	158,679	*	*	229,345	*	*	134,598	*	*	181,075	*	*
Top Ad & Promotion Executive	108,564	115,044	6	134,254	150,941	12	*	130,271	*	*	160,361	*
Controller	168,659	168,362	0	246,499	246,917	0	153,608	160,106	4	220,731	228,361	3
Treasurer	154,137	161,756	5	217,890	233,249	7	139,854	143,848	3	190,867	199,685	5
Top Tax Executive	151,663	154,158	2	214,912	217,958	1	128,422	136,967	7	173,390	186,815	8
Top Insurance Executive	89,317	94,102	5	108,841	118,762	9	86,146	92,857	8	104,433	113,579	9
Top Quality Assurance Executive	117,448	*	*	165,383	*	*	*	*	*	*	*	*
Top Public/Govt. Relations Executive	189,471	182,185	-4	267,726	260,371	-3	160,365	183,270	14	219,984	260,734	19
Corporate Secretary	122,771	134,420	9	167,234	184,997	11	115,347	125,269	9	153,039	169,687	11
Top Administration Executive	270,022	284,067	5	424,158	433,125	2	233,924	238,794	2	357,941	382,899	7
Top Gen. Mgmt. Executive	393,774	*	*	715,994	*	*	319,019	*	*	544,895	*	*
Top Purchasing Executive	108,171	117,528	9	146,510	154,420	5	118,286	103,978	-15	147,841	122,283	-17
Top Transportation Executive	96,483	100,751	4	147,983	144,774	-2	84,227	*	*	111,067	*	*
Top International Executive	*	*	*	*	*	*	*	186,637	*	*	239,835	*

*Insufficient data

BY COMPANY SIZE

\$1 BILLION - \$3 BILLION									\$500 MILLION - \$1 BILLION									UNDER \$500 MILLION								
Base Salary			Total Compensation			% of Base to Total			Base Salary			Total Compensation			% of Base to Total			Base Salary			Total Compensation			% of Base to Total		
'88	'89	% Inc.	'88	'89	% Inc.	'88	'89		'88	'89	% Inc.	'88	'89	% Inc.	'88	'89		'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	% Inc.
\$477,330	\$491,344	3	\$801,474	\$888,940	11	60	55		\$394,400	\$473,319	20	\$538,086	\$633,462	17	71	72		\$282,340	\$298,076	6	\$418,086	\$411,946	-1	68	72	
327,413	361,827	11	547,791	680,474	24	60	53		271,190	310,855	15	352,993	475,530	35	77	65		223,104	245,994	10	321,053	357,931	11	69	69	
123,254	161,375	31	144,246	211,499	47	85	76		134,480	165,558	23	169,380	217,384	28	79	76		113,660	117,719	3	142,805	115,882	9	79	76	
*	210,255	*	*	349,239	*	*	60		*	164,490	*	*	231,143	*	*	71		*	130,681	*	*	174,611	*	*	75	
185,340	195,408	*	130,299	132,614	2	81	79		91,971	97,122	6	110,486	119,122	8	83	82		75,197	81,577	8	87,646	99,704	14	86	82	
164,911	165,627	*	230,988	240,744	4	71	69		152,287	172,443	13	199,256	237,259	19	76	73		118,428	113,827	-4	143,777	142,114	-1	82	80	
171,955	178,851	4	234,929	256,367	9	73	70		132,666	136,351	3	172,015	180,501	5	77	76		107,549	123,277	15	133,825	133,121	-1	80	81	
99,005	110,204	11	119,385	137,154	15	83	80		92,496	99,354	7	107,470	121,920	13	86	81		80,822	96,950	20	92,184	111,266	21	88	82	
137,581	139,492	1	181,642	197,229	9	76	71		111,888	109,866	-3	139,280	139,122	0	80	78		89,256	92,143	3	111,361	112,925	1	80	83	
73,361	76,129	4	79,880	81,870	2	92	93		68,191	68,706	1	74,695	73,990	-1	91	93		*	*	*	*	*	*	*	*	*
67,143	62,228	-7	75,690	68,200	-1	89	91		51,374	52,112	1	55,192	55,084	0	90	95		49,457	47,462	-4	52,096	48,833	-6	95	97	
125,452	149,741	19	154,113	242,500	57	81	62		98,433	138,400	41	115,508	231,342	100	85	60		112,244	*	*	141,794	*	*	79	*	
82,122	75,890	-8	91,453	86,486	-5	90	88		*	82,269	*	*	92,444	*	*	89		68,681	73,885	8	78,638	82,799	6	88	86	
126,478	131,133	4	168,354	180,387	7	75	73		107,091	105,479	-2	135,105	136,887	1	79	77		87,723	91,092	4	107,290	113,057	5	82	81	
146,832	128,728	-2	161,834	173,404	7	78	74		99,889	106,366	7	134,976	140,553	12	88	76		88,877	94,384	6	109,473	117,188	7	81	81	
109,935	110,628	1	137,867	142,574	3	80	78		83,380	86,135	3	99,366	104,667	5	84	82		70,227	75,741	8	80,744	89,563	11	87	85	
79,614	79,090	0	91,652	93,657	2	86	84		73,432	69,656	-5	82,868	76,682	-9	88	91		65,767	70,536	7	77,888	81,238	5	85	87	
100,851	93,567	-7	123,615	114,138	-8	82	82		72,910	*	*	84,951	*	*	86	*		*	65,668	*	*	72,239	*	*	91	
125,839	143,270	14	162,430	187,371	15	77	76		103,640	134,264	38	126,384	169,832	34	82	79		85,885	*	*	97,671	*	*	85	*	
123,370	126,055	2	164,704	170,118	3	75	74		101,166	110,795	10	133,945	144,873	8	76	76		*	*	*	*	*	*	*	*	
178,383	194,755	10	237,146	293,675	24	75	67		175,669	181,690	3	235,232	245,888	5	75	74		129,425	138,426	22	174,543	216,987	24	74	72	
230,617	238,358	3	308,658	322,006	4	75	74		189,394	186,508	-2	257,438	240,168	-7	74	78		143,471	162,000	13	201,212	213,142	6	71	76	
107,633	103,898	-3	133,817	132,467	-1	80	78		90,137	100,056	11	110,146	135,534	23	82	76		71,385	74,835	4	77,383	84,345	9	72	80	
76,671	80,635	5	86,991	95,652	10	88	84		68,746	70,982	3	77,790	84,230	8	88	84		55,975	58,940	5	58,546	62,227	6	96	95	
*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*	*

SPECIAL REPORT

COMPENSATION BY INDUSTRY

	AEROSPACE/ELECTRONICS						CHEMICALS					
	Base Salary		Total Compensation		% of Base to Total		Base Salary		Total Compensation		% of Base to Total	
	'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	% Inc.
Chief Executive Officer	\$558,873	\$592,599	6	\$896,996	\$928,061	3	\$432,562	\$500,133	16	\$652,199	\$756,842	16
Chief Operating Officer	360,573	388,521	8	535,397	597,973	12	317,555	399,444	26	483,949	543,272	12
Head of Manufacturing	*	170,767	*	*	209,351	*	*	*	*	*	*	*
Chief Financial Officer	255,532	*	*	385,344	*	*	172,250	*	*	239,098	*	*
Head of MIS	125,300	121,531	-3	177,883	157,049	-12	97,838	107,651	10	122,034	139,706	14
Head of R & D	177,500	180,100	1	220,000	239,564	18	*	174,328	*	*	248,372	*
Top Legal Executive	208,766	219,260	5	313,402	333,227	6	128,931	142,470	17	186,568	232,804	25
Top Patent Attorney	113,446	117,310	3	137,446	136,210	-1	91,551	113,320	24	110,612	145,555	32
Top Personnel Executive	161,258	157,576	-2	228,902	226,680	-1	117,782	132,982	13	157,467	184,066	17
Top Security Executive	81,205	92,878	14	92,205	105,598	15	72,998	79,092	8	77,072	84,960	10
Top Safety Executive	76,180	73,873	-3	86,120	81,873	-5	63,903	62,475	-5	73,972	72,838	-2
Top Marketing & Sales Executive	*	*	*	*	*	*	114,784	*	*	142,886	*	*
Top Ad & Promotion Executive	*	*	*	*	*	*	*	*	*	*	*	*
Controller	155,124	146,194	-7	221,325	206,933	-7	116,492	124,345	7	152,087	167,747	10
Treasurer	139,935	143,218	2	192,888	197,542	2	106,688	119,378	12	137,020	158,047	15
Top Tax Executive	124,484	121,085	-3	161,384	158,860	-2	104,876	108,838	4	113,139	140,595	24
Top Insurance Executive	91,810	97,885	7	105,537	118,335	12	81,442	88,187	10	94,814	104,931	11
Top Quality Assurance Executive	*	*	*	*	*	*	*	65,355	*	*	70,372	*
Top Public/Govt. Relations Executive	138,186	164,886	11	186,600	218,253	11	115,537	121,791	5	132,051	158,822	4
Corporate Secretary	128,268	135,935	6	182,451	182,146	0	117,844	115,144	-1	158,425	153,197	-3
Top Administration Executive	264,440	243,688	-8	348,649	320,581	-13	156,728	180,642	15	210,439	282,389	34
Top Gen. Mgmt. Executive	*	*	*	*	*	*	188,73	*	*	245,768	*	*
Top Purchasing Executive	108,661	104,888	-4	121,518	122,311	1	85,513	86,280	1	99,714	102,716	3
Top Transportation Executive	*	*	*	*	*	*	73,689	*	*	89,540	*	*
Top International Executive	*	*	*	*	*	*	*	*	*	*	*	*

*Insufficient data

CONSUMER PRODUCTS									ENERGY									PHARMACEUTICALS								
Base Salary			Total Compensation			% of Base to Total			Base Salary			Total Compensation			% of Base to Total			Base Salary			Total Compensation			% of Base to Total		
'88	'89	% Inc.	'88	'89	% Inc.	'88	'89		'88	'89	% Inc.	'88	'89	% Inc.	'88	'89		'88	'89	% Inc.	'88	'89	% Inc.	'88	'89	
\$311,283	\$580,935	10	\$811,566	\$983,666	21	63	57		\$492,146	\$490,830	0	\$670,991	\$708,465	6	573	569		\$631,481	\$714,357	13	\$1,115,218	\$1,305,360	17	57	55	
468,800	424,160	-10	657,280	700,501	7	71	61		323,571	329,501	2	443,960	522,268	18	73	63		435,814	449,167	8	724,864	756,333	4	60	62	
*	*	*	*	*	*	*	*		141,156	*	*	184,381	*	*	76	*		*	*	*	*	*	*	*	*	*
212,225	*	*	312,392	*	*	68	*		233,931	*	*	311,373	*	*	75	*		261,923	*	*	416,306	*	*	63	*	
116,064	119,862	3	145,643	150,388	3	80	80		104,780	109,320	4	120,833	130,431	8	87	84		135,029	132,544	-2	181,213	171,312	-5	75	77	
160,918	140,900	-12	206,310	189,563	-8	78	74		131,303	*	*	149,734	*	*	88	*		*	275,800	*	*	362,510	*	*	76	
*	192,705	*	*	267,566	*	*	72		176,310	194,923	11	212,495	244,342	15	83	80		225,200	236,621	5	325,114	343,730	6	69	69	
104,911	122,860	17	128,887	154,245	20	81	80		*	*	*	*	*	*	*	*		128,556	135,268	5	154,696	168,736	9	83	80	
146,896	144,348	-2	203,693	203,680	0	72	71		114,192	114,972	1	136,339	138,815	2	84	83		177,934	172,672	-3	260,039	253,447	-3	68	68	
79,140	81,125	3	91,893	92,331	*	86	88		68,817	69,939	2	74,188	73,605	-1	93	95		91,027	81,884	-10	110,085	94,479	-14	83	87	
61,835	62,423	1	69,431	71,925	4	89	87		55,089	65,986	19	57,189	65,988	15	96	100		*	*	*	*	*	*	*	*	*
159,309	206,280	29	201,783	261,997	30	80	79		136,600	147,613	8	152,200	203,184	34	90	73		233,945	244,600	5	320,862	328,900	2	73	74	
123,488	*	*	156,888	*	*	79	*		74,226	*	*	76,426	*	*	97	*		189,462	156,394	43	133,382	196,160	47	82	86	
121,177	129,145	7	160,332	171,093	7	76	75		132,386	134,277	1	163,315	177,402	9	81	76		155,531	152,293	-2	221,777	202,878	-9	70	75	
134,729	139,281	4	141,116	170,788	5	76	76		132,739	133,922	11	148,473	179,321	23	84	76		143,329	150,633	5	193,869	200,481	4	74	75	
125,468	128,403	2	168,165	171,169	2	75	75		106,018	117,171	11	123,092	149,173	21	86	79		148,656	166,544	12	205,428	229,112	12	72	73	
73,161	78,729	8	83,912	90,148	5	83	87		78,346	84,096	8	87,772	99,243	13	89	85		86,332	81,884	-5	108,370	95,634	-5	86	86	
*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*	*
138,689	214,840	35	219,064	312,240	43	72	69		142,774	136,188	-12	176,712	151,923	-11	81	88		174,936	198,175	8	248,268	269,225	8	79	71	
115,634	133,343	15	148,158	173,678	17	78	77		*	*	*	*	*	*	*	*		115,357	130,828	13	157,881	173,245	10	73	76	
219,239	234,577	7	317,611	345,483	9	89	88		189,262	175,913	-4	206,388	246,082	19	82	73		272,386	*	*	460,677	*	*	61		
*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*	*
116,716	112,822	-3	143,296	148,304	-3	81	88		108,894	102,689	-5	128,946	143,358	7	81	77		97,592	95,506	-2	112,711	116,043	-3	87	87	
72,206	76,040	5	80,827	88,904	10	89	86		*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*	*
*	*	*	*	*	*	*	*		*	*	*	*	*	*	*	*		252,388	*	*	480,562	*	*	83	*	